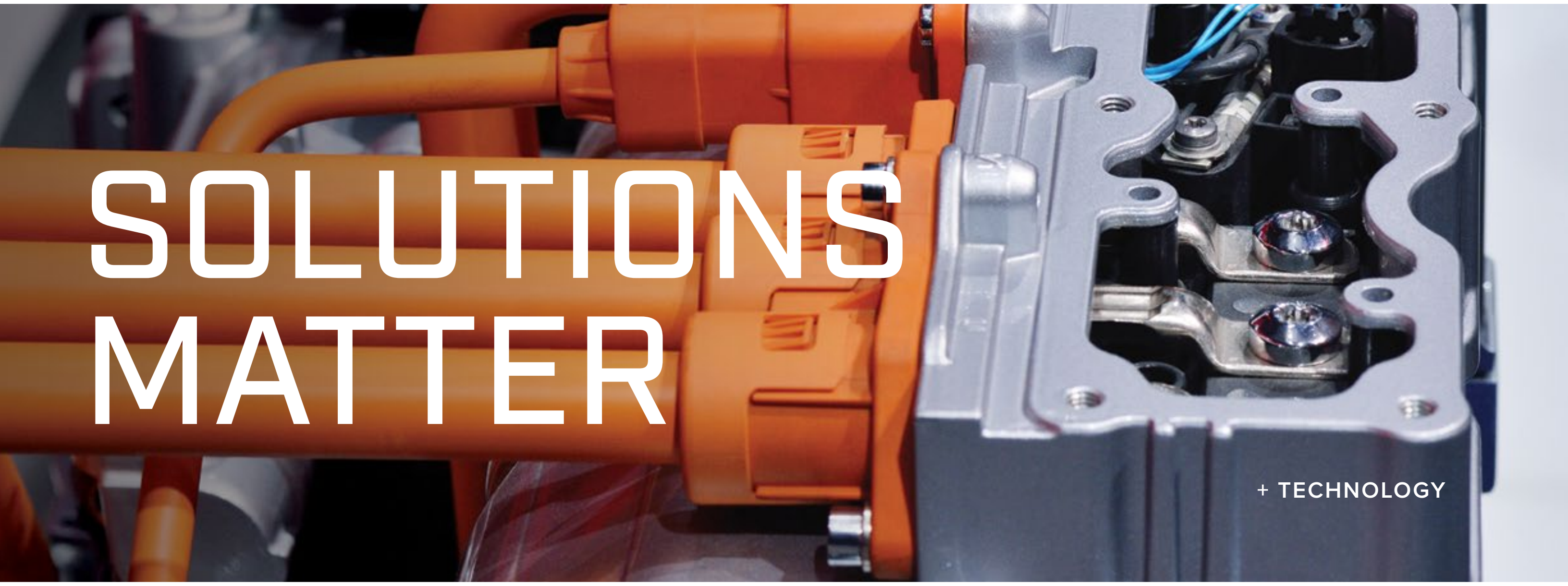
SHAWCOR

+ 2019 ANNUAL REPORT


+ INTEGRITY



# SOLUTIONS MATTER

+ TECHNOLOGY


+ EXECUTION

CORPORATE PROFILE

Shawcor is a growth oriented, global company. Its three segments — Pipeline and Pipe Services, Composite Systems, and Automotive and Industrial — specialize in technology-based products, services and solutions for various sectors of the infrastructure, energy and transportation markets.

## 2019 Highlights

### FINANCIAL SUMMARY

| Year ended December 31 (in thousands of Canadian dollars, except per share amounts) | 2019 | 2018 |
|---|---|---|
| **Operating Results** | | |
| Revenue | **$ 1,489,489** | $ 1,408,872 |
| (Loss) Income from Operations | **(46,411)** | 50,613 |
| Net (Loss) Income (note 1) | **(33,293)** | 25,876 |
| (Loss) Earnings per share – basic and diluted | **(0.47)** | 0.37 |
| Adjusted EBITDA (note 2) | **136,401** | 134,870 |
| Adjusted Operating Income (note 2) | **38,464** | 54,674 |
| Adjusted Net Income (note 1 & 2) | **25,093** | 34,515 |
| Adjusted Earnings per share – basic and diluted (note 2) | **0.36** | 0.49 |
| **Cash Flow** | | |
| Cash provided by operating activities | **54,163** | 30,545 |
| **Financial Position** | | |
| Working capital | **302,247** | 393,148 |
| Total assets | **1,811,085** | 1,702,125 |
| Equity per share | **13.54** | 15.26 |

Note 1: Attributable to shareholders' of the Company, excluding non-controlling interests.

Note 2: Adjusted EBITDA, Adjusted Operating Income, Adjusted Net Income and Adjusted Earnings per share are non-GAAP measures and do not have a standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. See Section-12.0 – Reconciliation of Non-GAAP Measures in the Company's 2019 Management's Discussion and Analysis.

# BUILDING AN ENERGY AND INFRASTRUCTURE TECHNOLOGY LEADER

Over the past 50 years, Shawcor has designed, built, protected and managed critical assets and infrastructure for customers worldwide. The Company has made significant investments in research and materials science and engineering, earning strong customer loyalty based on its history of execution success.

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# MESSAGE TO SHAREHOLDERS

## RECENT DEVELOPMENTS

As I write this letter in March 2020, we must recognize that recent events are proving to be extremely challenging for global Energy and Infrastructure companies to manage. The worldwide human and economic impact of the coronavirus combined with the recent changes in oil and gas supply and demand that will reduce capital spending of Exploration and Production operators, expected to be greater than 35%, is presenting a level of volatility and uncertainty that has not been seen since the global financial crisis of 2007–2008.

In addition to the magnitude of the pending reduction in demand for Shawcor's products and services was the speed at which our sentiment changed from strengthening performance to protecting the core of the Company. Until recently, Shawcor was preparing for a level of activity and financial performance that had not been seen since pre-2016. Now, the Company is positioning for potentially several years of unprecedented uncertainty where balance sheet security has become the top priority.

Starting with early engagement with our lenders in early 2020 followed by actions described in our mid-March press release, we have moved quickly to a balance sheet focus. With the lender amendment in place, initial cost saving and cash generation targets of a minimum of $60 million and $40 million, respectively, and the suspension of our dividend reducing cash outlay by more than $40 million annually, we expect that our balance sheet has been de-risked to a level required to manage a pending storm of unknown duration.

Despite the industry's near-term challenges, I remain confident in Shawcor's portfolio diversity, competitive position in key markets and the ability of the Company and its employees to be resilient and to take the actions required in the near term to ensure Shawcor's long-term success.

## CELEBRATING 50 YEARS

In 2019, we celebrated our 50th anniversary as a publicly traded company. Mr. Les Shaw listed Shawcor on the Toronto Stock Exchange in 1969 and our journey as a public company began. At that time, the Company operated with nine plants across Canada and had a little over 300 employees.

The reasons for our longevity can be tied to our values – Integrity, Technology, Execution – and a track record of project delivery, customer relationships, a commitment to quality and continuous improvement and the foresight to invest in staff, operations and commercialization of next generation products, services and solutions.

Achieving this milestone is a testament to our current and past employees and the ability of the organization to continually adapt, evolve and innovate over the long-term, often in the face of challenging market conditions.

## FINANCIAL RESULTS

Revenue for the year reached $1.49 billion, a 6 percent increase from 2018, reflecting improved performance in all three reporting segments of the Company, despite the absence of work on a large (+$100 million) pipe coating project. Revenue for our Composite Systems segment was lifted by the acquisition of ZCL Composites which closed in April 2019. Despite persistent challenges across our businesses servicing the oil and gas markets, including volatility in North America upstream demand in the second half of the year, the Company benefited from the contribution from our businesses servicing the infrastructure, automotive and industrial sectors.

Adjusted EBITDA[1] for the year rose 1% to $136 million, reflecting higher revenues from ZCL Composites, the positive impact of the adoption of IFRS 16 and lower incentive compensation expenses.

Encouragingly, project bid activity remained robust as we completed 2019 and order backlog increased to $513 million, a 12% increase over 2018. Included in the Company's firm bid numbers, but not in the 2019 backlog, are conditional contracts with Engineering Procurement and Construction (EPC) firms for a scope of work on as yet unsanctioned projects which is estimated at over $240 million.

## THE YEAR IN REVIEW

Although 2019 performance fell short of expectations and was below the level forecast at the beginning of the year, the Company advanced several elements of its strategy and sustained its core foundational capabilities in a year when Shawcor and the rest of the industry struggled with excess capacity and lower activity levels in traditional oil and gas markets.

In the fourth quarter of 2019, we introduced new segment reporting to provide greater visibility into our Composite Systems business, which contributed significantly to the Company's financial results.

In April 2019, Shawcor acquired ZCL Composites, a leader in corrosion-resistant underground storage and treatment tanks with operations in Canada, the United States and Europe. The acquisition extends the Company's composite product offering and provides access to new markets and opportunities in fuel, water and oil and gas.

Despite reduced activity levels in global energy markets, Shawcor successfully executed on critical projects, including the second phase of the Liza 2 deep-water development in Guyana and the Barzan project in EMAR.

During 2019, we took steps to rationalize our footprint with the divestment of real estate and other assets in Western Canada and part of our interest in an associate. With these actions we were able to consolidate our footprint in our pipe coating and tubular management operations and generate cash from the business. Together, these actions contributed $59 million in cash during the year.

The Company also made significant progress in 2019 on our sustainability disclosure, practices and policies. We continued to add new products and technologies to the portfolio which are less carbon intensive than alternatives and adopted a communication framework based on Sustainability and Accounting Standards Board (SASB) and Canadian Coalition for Good Governance (CCGG) practices.

We expect continued market focus on environmental safety and sustainability on new and existing pipeline infrastructure, which should result in increasing demand for our integrity management and engineering services.

## IMPERATIVE FOR DIVERSIFICATION

It's been more than 5 years since this energy down-cycle became visible and conditions continue to be very challenging. Higher supply estimates and a softer demand outlook have resulted in a slow recovery for the energy industry and a full recovery is not yet visible. The recent impact of the coronavirus and the decline in global oil prices has not helped.

1 See Section [12.0] – Reconciliation of Non-GAAP Measures in the Company's 2019 Management's Discussion and Analysis for a reconciliation of EBITDA, Adjusted EBITDA and Adjusted Earnings per Share.

In 2013, following our share reorganization and transition to a single share class structure, we recognized the challenges associated with being at the peak of the cycle and being primarily a pipe coating company. At that time, a good portion of Shawcor's revenue and profitability was generated from large international energy projects, often tied to offshore developments and Canadian in-field gathering line construction.

Since that time and through a downturn that has been more severe and longer in duration than even the experts predicted, we have taken major steps to diversify our portfolio of businesses to create a stronger, more resilient company. Today Shawcor is a much different company and benefits from a mix of early cycle, late cycle and non-oil and gas businesses which helps support our ability to manage through business cycles.

These steps have involved leveraging our core strengths and competencies in material sciences, lean manufacturing, process engineering and organizational scale to expand our addressable markets, reduce costs and bring innovative solutions to our customers.

## BUILDING OUR COMPOSITES PLATFORM

In April 2019, we closed the acquisition of ZCL Composites, a leader in the design and manufacture of composite underground tanks for customers in fuel, water and wastewater and oil and gas markets. The acquisition and its subsequent integration with the existing Shawcor composite pipe business has resulted in the creation of a much larger business with compelling cost and durability advantages over steel in transport and storage activities.

We are pleased with the performance of the ZCL Composites business in 2019, have met our objective of $8 million in annualized cost synergies and have visibility on additional revenue streams to meet our $35 million per year revenue synergy target by the end of year three.

The results for this growth platform are now visible in our Composite Systems segment reporting and are a demonstration of the progress that is being made in building and diversifying the Company.

## OPPORTUNITIES IN AUTOMOTIVE AND INDUSTRIAL

Our Automotive and Industrial segment, formerly called Petrochemical and Industrial, has made a gradual transition from products and services relating to heavy oil extraction and value-added petroleum processing to additional applications in the electrical, automotive, telecommunications, defense and general industry space.

The segment is expected to be stable over the longer term and provides a solid base for the Company with anticipated consistent and steady growth despite short-term volatility as the industrial and global supply chain works through the impact of the coronavirus.

Our Automotive and Industrial businesses will continue to be benefited by investments in global production capacity, driven by the growing electrical content of vehicles and growing electrical vehicle production and demand for specialized wire and cable products including for nuclear refurbishment.

## RESETTING PIPELINE AND PIPE SERVICES

Shawcor has a track record of providing solutions to customers, primarily in the North American midstream and upstream and international and offshore exploration and development space.

In 2019, despite low activity levels in our pipe coating business, our investments have supported a build in the backlog and other work pending project sanctioning.

We have and will remain active in reviewing and reducing our operational footprint while considering the requirements to execute line of sight projects. Our focus remains the winning and execution of target projects, the extraction of value from investments in technology, the sale of assets and adjustment to product and service lines which are no longer supportive to Shawcor's long-term strategy.

## CLEAR PRIORITIES

The organization is aligned and focused on delivering priorities to ensure we can manage the uncertainty of the near term while maintaining core positioning in markets that will in the longer term deliver a positive return to all stakeholders on the resources we have invested.

The first and primary priority is the need to strengthen the balance sheet to a level that will ensure the Company is able to reduce net debt leverage to manage through a period of extreme uncertainty. We will continue to make decisions which are in the long-term interests of protecting the Company. These measures include the acceleration of already planned plant closures, exiting of forecasted low profitability markets, selling of select businesses and assets and additional reductions to our working capital and fixed cost structure.

The second priority is executing work that we have already secured and capturing future work that does go ahead. As per past cycles, we do have confidence that our late cycle pipe coating business, that is reflected in our current backlog, will ultimately see continuation and that other projects which are not directly tied to commodity prices will be sanctioned. Additionally, our diversified portfolio will result in opportunities, such as those related to civil infrastructure construction, that we will strive to capture.

The third and final priority is ensuring we protect the core of the Company. Maintaining expertise in material sciences, lean manufacturing, process engineering and project management will ensure Shawcor will continue to differentiate, now and in the future.

## CONFIDENCE IN THE LONG-TERM FUNDAMENTALS

Challenges associated with predicting the near-term future supply and demand for the Energy Sector will continue and have increased in the short-term. However, we believe that the long-term fundamentals which underpin the demand for Shawcor's products, services and solutions are resilient and sound. They are:

**Supply and Demand Imbalance.** The need to move energy and water over vast distances to match supply and demand will require investments in developing new sources of oil and gas, and constructing and maintaining oil, gas and water infrastructure.

**Asset Ownership is Important.** Asset owners are taking a wider view of their responsibility to manage and optimize assets across the entire lifecycle and this will create opportunities in integrity management, using the best available technology and data for decision-making.

**Energy Supply and Assurance.** Nations and regions will focus on improved energy security, reliable supply and uninterrupted access which will drive investments in major energy and infrastructure development.

**Focus on Greener Alternatives.** Investments will be required to address market dynamics and ensure people have access to energy and water in a way which protects the physical environment and reduces intensity. This will create demand for electric vehicles, natural gas/LNG and potable water.

There is no question that, going forward, there will be a higher degree of public and regulatory scrutiny and this will be supportive to the Company's core business of asset protection and integrity.

Better times are ahead as the portfolio develops and our pipe coating businesses work to improve returns in 2020 and beyond.

## A WORD OF APPRECIATION

I would like to thank those Directors not standing for election in 2020, Charlene Valiquette and James Derrick, for their long and valuable contribution and welcome to Shawcor's new Directors, Laura Cillis and Lisa Bahash.

In closing, I would like to extend my appreciation to all of Shawcor's valued employees, business partners and investors for their support throughout the many years that Shawcor has operated and for their continued support in the years to come.

**STEVE ORR**
Chief Executive Officer

# SHAWCOR AT-A-GLANCE

Shawcor's products, services and solutions are utilized in oil and gas, water and waste water, fuel, transportation and industrial applications. An unrivalled network in over 20 countries places us in the heart of every important energy producing region and at the forefront of the fastest growing segments in the industry.

## 2019 Highlights

**20+**
COUNTRIES OF OPERATION

**6,000+**
EMPLOYEES WORLDWIDE

**338**
PROPRIETARY FORMULATIONS & PATENTS

**50**
YEARS AS A PUBLICLY TRADED COMPANY

### Sustainability at Shawcor

The core of our business is environmental protection, asset integrity and sustainability. We demonstrate these elements through the following capabilities:

+ Innovative materials science
+ Engineering and inspection solutions
+ Corrosion resistant composites
+ Advanced polymers and application engineering

To learn more about sustainability at Shawcor, refer to our sustainability section on page 6.

## Business Profile

### DESIGN

We deliver engineering and consulting services to develop innovative, effective, and enduring solutions

### BUILD

We manufacture products, equipment and systems to meet stringent industry standards and customer requirements

### PROTECT

We apply advanced materials and formulations to substrates to ensure performance over full asset lifecycle

### MANAGE

We provide complete inspection, integrity and asset management services to ensure integrity and extend asset life

## Shawcor Business Segments

| | PIPELINE & PIPE SERVICES | COMPOSITE SYSTEMS | AUTOMOTIVE & INDUSTRIAL |
|---|---|---|---|
| **BUSINESS DESCRIPTION** | Provider of pipeline protection and inspection solutions as well as facilities and engineering Services | Manufacturer of flexible and environmentally-friendly composite systems and solutions | Supplier of specialty wire and cable and integrated heat shrink solutions for severe industrial environments and automotive electrical systems |
| **LEADING BRANDS** | + Bredero Shaw<br>+ Socotherm<br>+ Canusa-CPS<br>+ Dhatec<br>+ Shaw Pipeline Services<br>+ Shawcor Inspection Services<br>+ Lake Superior Consulting | + FlexPipe<br>+ FlexFlow<br>+ Global Poly<br>+ ZCL \| Xerxes<br>+ Parabeam<br>+ Guardian | + DSG-Canusa<br>+ ShawFlex |
| **PRODUCTS & SERVICES** | + Management & Engineering Services<br>+ Pipeline Performance Services & Products<br>+ Integrity Management Consulting | + Oilfield Asset Management<br>+ Composite Pipes & Tanks | + Specialty Wire & Cable<br>+ Heat Shrink & Cold Applied Products |
| **ENERGY & INFRASTRUCTURE MARKETS** | + Deepwater Oil & Gas<br>+ Onshore Oil & Gas<br>+ Shale Plays<br>+ District Heating & Cooling Systems<br>+ Water & Wastewater Pipelines<br>+ Petrochemical<br>+ LNG/Enhanced Recovery<br>+ Pipeline Facilities/Stations | + Oil & Gas Gathering Systems<br>+ Retail Fuel<br>+ Oilfield Water<br>+ Wastewater Collection<br>+ Water Conservation<br>+ Water Quality | + Automotive Electrical Systems<br>+ Electric Vehicles<br>+ Power Generation<br>+ Nuclear Power<br>+ Electrical Transmission & Distribution<br>+ Aerospace/Defense/Mass Transit<br>+ Communications |

# OUR COMMITMENT TO SUSTAINABILITY

At Shawcor, we naturally take a long view. We have designed, built, protected and managed critical energy and infrastructure assets for customers for over 50 years.

Our success can be attributed to our enduring core values – Integrity, Technology, Execution, customer relationships based on a track record of project delivery, a network of strategic global locations, industry-leading business processes and programs, and substantial investments in research and development initiatives to maintain a portfolio of leading proprietary technologies.

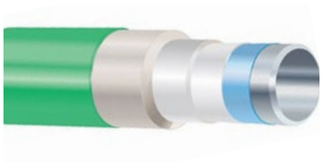
Our enterprise level sustainability programs, performance and metrics are presented in this section to align to the five elements of SASB (sustainability accounting standards board) a convention which addresses health, safety and environment stewardship, social and human capital, business model and innovation and leadership and governance, all elements we consider critical to Shawcor's success over the long-term.

Shawcor's products, services and solutions developed based our leading material science and inspection technologies enable our customers to reduce their potential environmental impact while optimizing operations.

## Our Green Technology Solutions

We relentlessly pursue technologies that reflect our values and customer aspirations.

### THERMOTITE ULTRA™



Thermotite ULTRA is an end-to-end subsea insulation system designed for flow assurance

### DIGITAL iLINE™

Digital iLINE™ asset tracking, tracing and monitoring

### FLEXPIPE/FLEXFLOW™


FlexPipe/FlexFlow™ reduces environmental footprint and enables efficient installation

### EV WIRE HARNESS

EV Wire Harness insulates and seals electrical/ electronic systems

## Health, Safety and Environment (HSE)

| 0 | 6.0 | 11 |
|---|---|---|
| Fatalities | Total Recordable Case Frequency | Division/ Site HSE Audits |
| **2018:** 0 | 6.2 | 11 |

## Environmental Stewardship

| 107,000 | 72 | $1.2M+ |
|---|---|---|
| GHG Emissions<br>METRIC TONNES OF $CO_2$ EMITTED | Emissions Intensity<br>METRIC TONNES OF $CO_2$ EMITTED PER $C1 MILLION IN SHAWCOR REVENUE | Environmental Remediation |
| **2018:** 124,000 | 82 | $435,000 |

Shawcor is committed to protecting the health and safety of all employees, contractors and the public at large and believes health and safety is everyone's priority and responsibility. Our vision is an IIF (Injury and Incident Free) workplace with no harm to people or damage to the environment.

We believe there is a safe way to perform every job and effective teamwork and communication are the key to preventing injury. Our risk-based approach and review of leading indicators and performance metrics ensures that all potential hazards are identified and assessed, and that appropriate controls are put into place to prevent harm to all individuals working in Shawcor offices, laboratories, plants and field operations.

Shawcor maintains a comprehensive HSE management system in which HSE responsibility and accountability is established and incorporated into every level of the organization which results in a focus on reducing risk and preventing incidents.

We are committed to adhering to the laws and regulations in the jurisdictions in which we operate.

For the years ending December 31, 2019 and December 31, 2018 the Company had recordable injuries per million person hours worked of 6.0 and 6.2, respectively. During 2019, the Company completed 11 HSE audits at manufacturing and service locations across the Company and developed action plans to correct any deficiencies identified in the audits.

### Spotlight

**HANDS-FREE INITIATIVE**

Our Hands-Free initiative is designed to reduce the number of people involved in direct material handling, utilize the practice of control zones in material handling operations and ensure fit for purpose equipment and tools are available to protect employees.

> "We have a tremendous team of dedicated employees and our local Green Team has great ideas to continue to reduce our footprint, which is helping us to lead the broader Shawcor community in these efforts."
>
> – Dean Bennett, Plant Manager – Huntsville, Ontario

Shawcor continues to promote environmental stewardship and management. We are committed to meeting international standards and regulations and making a positive contribution to the environment through program management and data collection, managing risk and promoting reductions in resource use in our operations.

We have taken steps to decrease the Company's global greenhouse gas emissions through improved operating practices and continue to focus on waste generation, which we strive to reduce by improving internal processes, changing product formulations and finding beneficial ways to re-use by-products.

Shawcor has been voluntarily providing environmental information to CDP (formerly Carbon Disclosure Project) since 2008 as a resource for our global customers and stakeholders.

We believe communicating our environmental management and performance data such as annual carbon dioxide equivalent emissions and intensity, baselines and targets, electricity use, water use, fuel consumption and our environmental oversight information supports our communication, benchmarking and continuous improvement objectives.

## People, Ethics and Compliance

| 11.8% | 19.4% | 17.6% |
|---|---|---|
| Female Executives[1] | Female Executive Talent Pool | International Executives |
| **2018:** 6.3% | 11.8% | 12.5% |

Shawcor promotes the development of its people and workforce through high quality training and skill development, continuous improvement programs and human resources and talent management practices.

Employees are expected to adhere to our Code of Conduct and Human Rights Statement which ensures people's rights are respected and protected as we conduct our business activities and interactions.

We strengthen our organization and build capability through our Shawcor Management System (SMS) Program, SMS Champions Certification and on-line Centre for SMS excellence. SMS combines the concepts of "Best in Class" benchmarking, lean management, leadership training and employee engagement for the purpose of operating efficiency, cost reduction and process improvement in our operations and business functions. Shawcor has been recognized for several years as a leader in lean and continuous business improvement.

We believe that talent should be managed for the best interests of the individual and the Company through best practice HR Management. Shawcor's programs and annual cycle of activities ensure management and employees are aligned to the Company's and business unit objectives, are provided feedback and coaching on performance and leadership demonstrated and talent is reviewed for development and succession planning.

We value the diversity of people and thought, developing leaders through effective training platforms and programs and strengthening collaboration across Shawcor and our value supply chain to ensure a sustainable infrastructure.

Our Code of Conduct is a key component of our commitment to operating with the highest standards of business ethics and earning the trust of our stakeholders. It is a trusted resource for helping our employees regularly make safe and accurate business decisions. Our Code of Conduct is reviewed and signed by all employees when they commence employment and reconfirmed each year in writing.

At Shawcor, we respect the privacy of our employees and ensure proper collection, use and protection of personal data, maintaining records in accordance with regulatory requirements. We ensure the preservation of confidentiality of both our and our customers' data and require the same of third parties who process this data on our behalf.

## Supply Chain, Quality and Continuous Improvement

### Spotlight

**iLINE**

Shawcor's iLINE is a new platform of data-empowered solutions designed to improve efficiency and safety, reduce costs and delays, eliminate risks and ultimately optimize the life of customers' assets. iLINE solutions add a layer of digital technology to our products and services to integrate tracking, traceability, asset management and other informative capabilities to help drive better decisions.

Shawcor is committed to the highest standards of quality, integrity and ethics in our business activities and relationships with customers and suppliers, as well as to fair and open business practices in accordance with all applicable laws and regulations.

Shawcor utilizes a competitive RFQ bidding process based upon the principles of transparency, nondiscrimination and equal treatment of bidders. To ensure consistent delivery on expectations and commitments, we actively monitor and manage supplier performance through prequalification, due diligence, follow up, verification and auditing via the use of relevant key performance indicators. Integrity and due diligence are integral to all supply chain activities within and between Shawcor, its business units and our suppliers.

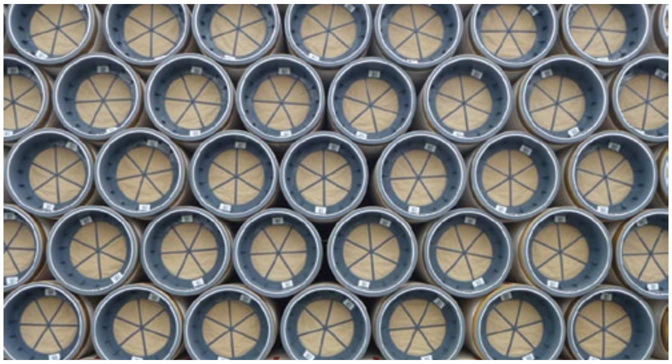
We hold suppliers responsible for ensuring that their subcontractors and/or third parties that they employ in their work for Shawcor will act in accordance with these standards as well.

Requirements for doing business with Shawcor are outlined in our Supply Chain and Supplier Compliance guidelines which are available to all suppliers and/or third parties working on behalf of the Company on the Shawcor website.

Shawcor maintains certain standards and policies including regulatory, ISO, industry and testing protocols to ensure its products and service are delivered to meet specified requirements. Several of the Company's operations maintain ISO certifications and standards.

Shawcor's Management System (SMS) is an industry-leading business improvement model and strategy that leverages leadership, culture and reliable processes to flawlessly execute operational plans, optimize business processes and set standards for reliability. We demonstrate our commitment to quality and continuous improvement by meeting and exceeding our customer's expectations – delivering superior quality and integrated solutions on time and on budget.

1 Female participation includes the number working in defined executive officer roles and in Shawcor's executive talent pool, a key source of high potential talent for executive officer roles.



## Research, Technology and Innovation

| $12.6M | 227 | 111 |
|---|---|---|
| Research & Development | Patents | Proprietary Formulas |
| **2018: $11.9M** | 182 | 86 |

Shawcor's technology advantage is based on industry-leading material science that draws on deep partnerships with researchers, universities and customers, which has resulted in strength in materials science and inspection technology.

Shawcor has a proud history of innovation and inventiveness. For example, we were the first to develop polypropylene sleeve technology to protect high temperature pipelines and were pioneers in the development of advanced detection technology to ensure offshore pipeline weld inspection integrity.

Shawcor develops advanced technology solutions which help our customers deliver long-term operating performance of long-life energy and infrastructure assets for applications in energy, water, industrial and automotive markets.

We promote technical leadership through designated technical communities in which subject matter experts share knowledge and best practices with internal and external stakeholders. Technical leaders are active on industry committees and associations where they educate customers and stakeholders on new research and developments through presenting technical papers and presentations.

Our intellectual capital is protected through a patent filing and renewal program which ensures the Company inventions and innovations are documented, communicated and protected. Please note that research and development expenditures do not include development spending related to plant and/or field trials.

### Spotlight

**LotusFlo**

LotusFlo is a super hydrophobic, ultra-thin, internal Diamond-Like Coating (DLC) designed to reduce and possibly eliminate deposition of scale, asphaltenes and wax on tubular surfaces. The coating is molecularly bonded to the tubular's electrically conducted substrate via a plasma deposition process.

## Business Model, Management Systems and Practices

Shawcor's business model is based on the principles of ensuring the Company maintains close involvement with customers, develops innovative technologies and products, pursues low cost and efficient manufacturing and service delivery, continues global leadership in its core offerings and continues to have financial strength and strong long-term fundamentals at its foundation.

The Company's business model and organizational capabilities are supported by value-added corporate functions to support the enterprise and the growth of business and operating leadership which are responsible for the primary operating and profit and loss units of the Company.

Corporate functions are focused on the long-term horizon and building the standards, systems, tools and capabilities to deliver effective service. Their mandate includes functional management, program development/execution and capacity-building. Operating executives are focused on general management, sales and business development, operations and product/service quality, strategic and business planning and compliance with policies, standards and practices.

Shawcor is building organization capability based on three business segments: Pipeline and Pipe Services, Composite Systems, and Automotive and Industrial. While each operation has their own growth prospects within their respective market, we link many of the discrete products and services they deliver into complete value-added solutions that address major industry and customer challenges.

Management regularly review the Company's operational systems and processes and develops new ones as required. Key operational programs utilized by Shawcor in the year ended December 31, 2019 include systems and controls over project bidding, capital expenditures, enterprise risk, internal controls over financial reporting, product development, HSE management and human resource development. In addition, the Shawcor Management System (SMS) program has been implemented to increase operating efficiency and achieve cost savings in each of the Company's operating businesses.

Shawcor's Enterprise Risk Management (ERM) System provides our Board of Directors and senior management with assurance that risks in our businesses are continuously identified, assessed, monitored and mitigated through management actions. ERM supports our ability to consistently deliver world-class operational excellence and provide solutions to our customers' biggest challenges. Shawcor's risk management framework includes operational risk management, business and strategic risk management, risk oversight and governance and our comprehensive audit program.

Together, our business model, management systems, operating conditions, organizational structures, processes, procedures, standards and Code of Conduct form a system of internal control that governs how we operate and manage risks in our business and value chain.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is a discussion of the consolidated financial position and results of operations of Shawcor Ltd. ("Shawcor" or the "Company") for the years ended December 31, 2019 and 2018 and should be read together with Shawcor's audited consolidated financial statements and accompanying notes for the same periods. All dollar amounts in this MD&A are in thousands of Canadian dollars, except per share amounts or unless otherwise stated.

This MD&A and the audited consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), which are also Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises in Canada. This MD&A contains forward-looking information and reference should be made to Section 14 hereof.

## 1.0 EXECUTIVE OVERVIEW

Shawcor is a growth oriented, global company with its three segments of Pipeline and Pipe Services, Composite Systems and the Automotive and Industrial (formerly named Petrochemical and Industrial) serving various sectors of the Infrastructure, Energy and Transportation markets. The Company has eight operating units with over eighty manufacturing and service facilities located around the world. The Company is publicly traded on the Toronto Stock Exchange.

### 1.1 CORE BUSINESSES

Shawcor provides a broad range of products and services, which include high quality pipe coating services, flexible composite pipe, fiberglass reinforced plastic underground storage tanks, onshore and offshore pipeline corrosion and thermal protection, state-of-the-art ultrasonic and radiographic inspection services, tubular management services, heat-shrinkable polymer tubing, and control and instrumentation wire and cable.

The Company and its predecessors have designed, engineered, marketed and sold its products and services worldwide for over 50 years. Shawcor has made substantial investments in research and development initiatives and earned strong customer loyalty based on a history of project execution success.

The Company operates in a highly competitive international business environment with its success attributed to its strategic global locations, its extensive portfolio of proprietary technologies and its commitment to the use of industry-leading business processes and programs.

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

As at December 31, 2019, the Company's eight operating units were reported through three operating segments: Pipeline and Pipe Services; Composite Systems and Automotive and Industrial (formerly Petrochemical and Industrial).

**Pipeline and Pipe Services**

The Pipeline and Pipe Services segment is the largest segment of the Company and accounted for 58% of consolidated revenue for the year ended December 31, 2019. This segment includes products and services for the Pipeline Performance Group, Pipeline Performance Products, Shaw Pipeline Services, Shawcor Inspection Services and Lake Superior Consulting operating units.

- Pipeline Performance Group (formerly Bredero Shaw) product offerings include specialized internal anti-corrosion and flow efficiency pipe coating systems, insulation coating systems, weight coating systems and custom coating and field joint application services for onshore and offshore pipelines.
- Pipeline Performance Products (formerly Pipeline and Pipe Services Products) includes Canusa-CPS, that manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications and Dhatec, that designs and assembles engineered pipe logistics products and services.
- Shaw Pipeline Services 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.
- Lake Superior Consulting provides pipeline engineering and integrity management services to major North American pipeline operators.

**Composite Systems**

The Composite Systems segment accounted for 28% of consolidated revenue for the year ended December 31, 2019. This segment includes the Composite Production Systems and Oilfield Asset Management.

- Composite Production Systems (formerly Flexpipe Systems) manufacturers spoolable and stick composite pipe systems and high density polyethylene pipe used for oil and gas gathering, water disposal, carbon dioxide injection pipelines and other applications requiring corrosion resistance and high pressure capabilities. Since the acquisition of ZCL Composites ("ZCL") in 2019, this operating unit also manufacturers reinforced plastic underground storage tanks for the retail fuel, water and wastewater and oil and gas markets.

- Oilfield Asset Management (formerly Guardian) provides a complete range of tubular management services including inventory management systems, mobile inspection, in-plant inspection and the refurbishment and rethreading of drill pipe, production tubing and casing, and tubular products that utilize composite materials.

**Automotive and Industrial (formerly Petrochemical and Industrial)**
The Automotive and Industrial segment, which consists of the Connection Systems operating unit, accounted for 14% of consolidated revenue for the year ended December 31, 2019. Operations within this segment utilize polymer and adhesive technologies that were developed for the Pipeline and Pipe Services segment and are now being applied to applications in Automotive and Industrial markets.

- Connection Systems is a global manufacturer of heat-shrinkable products including thin, medium and heavy-walled tubing, sleeves and molded products as well as heat-shrink accessories and equipment.
- Connection Systems also manufactures wire and cable for control, instrumentation, thermocouple, power, marine and robotics applications.

### 1.2 VISION AND OBJECTIVES

Shawcor's vision and business strategy is to build a brand that is recognized and delivers stakeholder value through leveraging integrity, technology and execution in the Infrastructure, Energy and Transportation markets by:

- generating a positive return on resources invested;
- generating sustainable profitable growth; and
- continuous improvements in health and safety and our impact on the environment.

### 1.3 PERFORMANCE DRIVERS

The Company believes the following performance drivers are critical to the success of its businesses:

- demand for the Company's products and services in the Infrastructure, Energy and Transportation markets;
- current and forecasted commodity price levels that exceed the financing requirements of our customers on their development investments;
- the capital spending of our customers to build new and replace, refurbish and repair aging infrastructure;
- the operating expenditure of our customers to maintain and manage the operational integrity of current infrastructure;
- the diversification of the Company's portfolio of products and services;
- the Company's ability to bring innovative technology to market;
- the Company's ability to have a competitive global market presence;
- the Company's ability to match dynamics of the market demand with its resources;
- the Company's ability to attract and retain talent;
- access to capital to maintain liquidity for operational and selected growth initiatives; and
- the Company's ability to complete successful business acquisitions and divestitures.

### 1.4 KEY PERFORMANCE MEASURES

Several of the drivers identified above are beyond the Company's control; however, there are certain key performance measures that the Company utilizes to monitor its progress in achieving its vision and performance objectives. These measures are detailed below.

Certain of the following key performance measures used by Shawcor are not in accordance with GAAP, should not be considered as an alternative to net income or any other measure of performance under GAAP and may not necessarily be comparable to similarly titled measures of other entities. Refer to *Section 12 – Reconciliation of Non-GAAP Measures*, for additional information with respect to Non-GAAP measures used by the Company.

**Return on Invested Capital**
Return on Invested Capital ("ROIC"), a non-GAAP measure, is defined as net income for the year adjusted for after-tax interest expense divided by average invested capital for the most recently completed year. ROIC does not have a standardized meaning under GAAP and may not necessarily be comparable to similarly titled measures used by other entities. ROIC is used by the Company to assess the efficiency of generating profits from each unit of invested capital. See Section 12.0 – Reconciliation of Non-GAAP Measures for additional disclosures regarding ROIC. The Company's ROIC for the years ended December 31, 2019 and 2018 was (0.4%) and 2.8%, respectively. This decline was primarily due to the impairment charge of $104.1 million recorded in the current year. Excluding the after-tax impact of the impairment charge, the ROIC for the current year would be 5.3%.

**Net Income Growth**
Net income (attributable to shareholders of the Company) was a net loss of $33.3 million for the year ended December 31, 2019, lower compared to a net income of $25.9 million for the year ended December 31, 2018. This was mainly due to the net negative after-tax impact in the current year from the impairment charge of $104.1 million, $16.5 million of acquisition and related costs for ZCL and the $12.3 million cost associated with the repayment of modification of long-term debt and credit facilities. This was partially offset by a $39.3 million gain on sale of land and a $14.8 million gain on the redemption of an investment in associate. Adjusted Net Income for the current year was $25.1 million compared to adjusted net income of $34.5 million in the prior year. See *Section 12.0 Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted Net Income.

**Safety and Environmental Stewardship**
The Company maintains a comprehensive HSE management system in place within each of its eight operating units and is committed to be an Incident and Injury Free ("IIF") workplace with no damage to the environment. For the years ended December 31, 2019 and December 31, 2018, the Company had recordable injuries per million person hours worked of 6.0 and 6.2, respectively. Excluding the recordable injuries for ZCL, the rate would be 5.1 which is 18% improvement over the prior year. During 2019, the Company completed 11 HSE audits at manufacturing and service locations across all eight operating units and developed action plans to correct any deficiencies identified in the audits.

## 2.0 FINANCIAL HIGHLIGHTS

### 2.1 SELECTED FINANCIAL INFORMATION

| (in thousands of Canadian dollars) | | Year Ended December 31, 2019 | | 2018 | | 2017[(a)] |
|---|---|---|---|---|---|---|
| **Revenue** | **$** | **1,489,489** | $ | 1,408,872 | $ | 1,565,499 |
| **Cost of Goods Sold and Services Rendered** | | **1,062,450** | | 974,795 | | 980,021 |
| **Gross Profit** | | **427,039** | | 434,077 | | 585,478 |
| Selling, general and administrative expenses | | **299,758** | | 300,294 | | 342,991 |
| Research and development expenses | | **12,647** | | 11,876 | | 10,536 |
| Foreign exchange gains | | **(4,572)** | | (11,929) | | (249) |
| Amortization of property, plant and equipment | | **55,204** | | 64,789 | | 77,267 |
| Amortization of intangible assets | | **26,159** | | 18,434 | | 19,170 |
| Amortization of right-of-use assets | | **19,495** | | – | | – |
| Gain on sale of land | | **(39,344)** | | – | | (311) |
| Impairment | | **104,103** | | – | | 8,073 |
| **(Loss) Income from Operations** | | **(46,411)** | | 50,613 | | 128,001 |
| Income (loss) from investments in associates | | **14,459** | | 282 | | (6,271) |
| Finance costs, net | | **(21,175)** | | (12,092) | | (16,817) |
| Costs associated with repayment and modification of long-term debt and credit facilities | | **(12,308)** | | – | | – |
| Net monetary loss | | **(3,997)** | | (4,796) | | – |
| **(Loss) Income before Income Taxes** | | **(69,432)** | | 34,007 | | 104,913 |
| Income tax (recovery) expense | | **(36,137)** | | 7,828 | | 33,885 |
| **Net (Loss) Income** | **$** | **(33,295)** | $ | 26,179 | $ | 71,028 |
| **Net (Loss) Income Attributable to:** | | | | | | |
| **Shareholders of the Company** | **$** | **(33,293)** | $ | 25,876 | $ | 71,155 |
| **Non-controlling interests** | | **(2)** | | 303 | | (127) |
| **Net (Loss) Income** | **$** | **(33,295)** | $ | 26,179 | $ | 71,028 |
| **Per Share Information:** | | | | | | |
| **(Loss) Earnings per Share** | | | | | | |
| Basic | **$** | **(0.47)** | $ | 0.37 | $ | 1.02 |
| Diluted | **$** | **(0.47)** | $ | 0.37 | $ | 1.02 |
| **Cash Dividend per Share:** | | | | | | |
| Common Shares | **$** | **0.600** | $ | 0.600 | $ | 0.600 |

| (in thousands of Canadian dollars) | | December 31, 2019 | | December 31, 2018 | | December 31, 2017[(a)] |
|---|---|---|---|---|---|---|
| **Total Assets** | **$** | **1,811,085** | $ | 1,702,125 | $ | 1,698,001 |
| **Total Non-Current Liabilities** | **$** | **564,072** | $ | 343,229 | $ | 322,235 |

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

### 2.2 FOREIGN EXCHANGE IMPACT

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

| | Year Ended December 31 | |
|---|---|---|
| | **2019** | 2018 |
| US Dollar | **1.3264** | 1.2958 |
| Euro | **1.4850** | 1.5290 |
| British Pound | **1.6947** | 1.7273 |

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

| (in thousands of Canadian dollars) | Year Ended December 31, 2019 |
|---|---|
| Revenue | **$ (6,885)** |
| Income from operations | **(4,500)** |
| Net income (attributable to shareholders of the Company) | **(3,598)** |

In addition to the translation impact noted above, the Company recorded a foreign exchange gain of $1.2 million in the fourth quarter of 2019 (year ended December 31, 2019 – gain of $4.6 million), compared to a foreign exchange gain of $4.4 million for the comparable period in the prior year (year ended December 31, 2018 – a gain of $11.9 million), as a result of the impact of changes in foreign exchange rates on monetary assets and liabilities and short-term foreign currency intercompany loans within the group, net of hedging activities, primarily in Latin America.

## 3.0 BUSINESS DEVELOPMENTS

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

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

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

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

**Contracts Awards for the Sangomar and Baltic Pipe Projects**

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

**Amendments to the Credit Facility**

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

**New Segment Reporting**

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

*Pipeline and Pipe Services*

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

*Composite Systems*

- Composite Production Systems, spoolable and stick composite pipe systems, high-density polyethylene ("HDPE") pipe and fiberglass reinforced plastic underground storage tanks; and
- Oilfield Asset Management, tubular management services and lined tubing products.

*Automotive and Industrial*

- Connection Systems, including DSG-Canusa, heat shrinkable tubing products, and ShawFlex, wire and cable products.

# 4.0 RESULTS FROM OPERATIONS

## 4.1 CONSOLIDATED INFORMATION

### Revenue

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

| (in thousands of Canadian dollars) | | 2019 | | 2018[b] | | Change |
|---|---|---|---|---|---|---|
| Pipeline and Pipe Services | $ | **863,848** | $ | 861,289 | $ | 2,559 |
| Composite Systems | | **417,329** | | 347,758 | | 69,571 |
| Automotive and Industrial | | **211,103** | | 202,254 | | 8,849 |
| Elimination[a] | | **(2,791)** | | (2,429) | | (362) |
| Consolidated | $ | **1,489,489** | $ | 1,408,872 | $ | 80,617 |

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

(b) Restated to conform with current period presentation.

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

Revenue for the Pipeline and Pipe Services segment during the twelve-month period ended December 31, 2019 was $863.9 million, or $2.6 million higher than in the comparable period in 2018, due to higher revenues in North America and EMAR, partially offset by lower revenue in Asia Pacific. See *Section 4.2.1 – Pipeline and Pipe Services Segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

Revenue for the Composite Systems segment increased by $69.6 million during the twelve-month period ended December 31, 2019, compared to the same period in 2018, due to higher activity levels in all regions, primarily due to the acquisition of the ZCL business in the second quarter of 2019. See *Section 4.2.2 – Composite Systems Segment* for additional disclosure with respect to the change in revenue in the Composite Systems segment.

Revenue for the Automotive and Industrial segment increased by $8.9 million during the twelve-month period ended December 31, 2019, compared to the same period in 2018, due to higher activity levels in North America, partially offset by lower revenue in Asia Pacific and EMAR. See *Section 4.2.3 – Automotive and Industrial Segment* for additional disclosure with respect to the change in revenue in the Automotive and Industrial segment.

### Income/Loss from Operations (“Operating Income/Loss”)

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

| (in thousands of Canadian dollars) | | 2019 | | 2018 | | Change |
|---|---|---|---|---|---|---|
| Operating (Loss)/Income | $ | **(46,411)** | $ | 50,613 | $ | (97,024) |
| Operating margin[a] | | **(3.1%)** | | 3.6% | | (6.7%) |
| Adjusted Operating Income[b] | $ | **38,464** | $ | 54,674 | $ | (16,210) |
| Adjusted Operating Margin[a] | | **2.6%** | | 3.9% | | (1.3%) |

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

(b) Adjusted Operating Income is a non-GAAP measure calculated by adding back to Operating Income the sum of gain from sale of land, ZCL acquisition costs and other related items, impairment and hyperinflationary adjustments. Adjusted Operating Income does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies. See *Section 12.0 – Reconciliation of Non-GAAP Measures*.

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

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

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

As a result of the Company’s annual impairment testing on property, plant and equipment, intangible assets and goodwill, impairment charges of $104.1 million were recorded in the fourth quarter of 2019. The impairment charges included $90.9 million on intangible assets and goodwill for Shawcor Inspection Services and $13.2 million on assets at two pipe coating facilities, Pearland, Texas and Kuantan, Malaysia, due to the current market conditions for these assets and the Company’s assessment of the related future demand and market recovery.

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

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

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

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

On an adjusted basis, Adjusted Operating Income was $38.5 million in the twelve-month period ended December 31, 2019 compared to $54.7 million in the twelve-month period ended December 31, 2018. See *Section-12.0 Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted Operating Income.

**Income from Investments in Associates**

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

| (in thousands of Canadian dollars) | **2019** | 2018 | Change |
|---|---|---|---|
| Income from investments in associates | **$ (14,459)** | $ (282) | $ (14,177) |

The Company has equity accounted investments in Zedi Inc. ("Zedi") and Power-Feed-Thru Systems & Connections LLC ("PFT"). During the second and fourth quarters of 2019, Zedi sold several parts of its operations. In the second quarter of 2019, the Company received $29.2 million of proceeds pertaining to the partial redemption of the investment in Zedi and recorded a gain of $9.7 million. In the fourth quarter of 2019, the Company recorded a further gain of $5.1 million, pertaining to the additional sale of the parts of operations of Zedi and revision to estimates relating to the outcome of the above sales.

**Finance Costs, Net**

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

| (in thousands of Canadian dollars) | **2019** | 2018 | Change |
|---|---|---|---|
| Interest Income on short-term deposits | **$ (1,786)** | $ (2,990) | $ 1,204 |
| Interest expense on long-term debt | **16,543** | 9,096 | 7,447 |
| Interest expense, other | **2,852** | 5,986 | (3,134) |
| Interest expense on ROU assets | **3,566** | – | 3,566 |
| Finance costs, net | **$ 21,175** | $ 12,092 | $ 9,083 |

For the year ended December 31, 2019, net finance costs were $21.2 million, compared to $12.1 million in the comparable period in the prior year. The increase in net finance costs was primarily due to a $7.5 million increase in interest expense on long-term debt, primarily due to the acquisition of ZCL, a reduction of $1.2 million in interest income and a $3.6 million increase in interest expense on ROU assets on adoption of IFRS 16. This was partially offset by a $3.1 million reduction in other financing expenses.

**Income Taxes**

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

| (in thousands of Canadian dollars) | **2019** | 2018 | Change |
|---|---|---|---|
| Income tax (recovery) expense | **$ (36,137)** | $ 7,828 | $ (43,965) |

The Company recorded an income tax recovery of $36.1 million (52% of income before income taxes) during the twelve-month period ended December 31, 2019, compared to an income tax expense of $7.8 million (23% of income before income taxes) during the twelve-month period ended December 31, 2018. The effective tax rate for the twelve-month period ended December 31, 2019 was lower than the Company's statutory income tax rate of 27%, primarily due to the recognition of previously unrecognized deferred tax assets in the US and Canada associated with the ZCL acquisition purchase accounting, the gain on the sale of land, the impairment charge recorded in the fourth quarter of 2019, the gain on the redemption of investment in an associate and the future outlook for the mix of jurisdictions where income is expected to be earned.

**Net (Loss) Income (attributable to shareholders of the Company)**

Net income decreased by $59.2 million, from a Net Income of $25.9 million during the twelve-month period ended December 31, 2018 to a Net Loss of $33.3 million during the twelve-month period ended December 31, 2019, mainly due to the $97.0 million decrease in Operating Income, which includes the impairment charge of $104.1 million in the current year and other items explained above, a $9.1 million increase in net finance costs and a $12.3 million charge recorded in the second quarter of 2019 for costs associated with the repayment of long-term debt and the establishment of a new credit facility. This was partially offset by the $14.2 million in net gain from investment in associate and the $44.0 million increase in income tax recovery. Please also refer to *Section-12.0 Reconciliation of Non-GAAP Measures* for Adjusted Net Income Attributable to Shareholders.

## 4.2 SEGMENT INFORMATION

### 4.2.1 Pipeline and Pipe Services Segment

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

| (in thousands of Canadian dollars, except operating margin) | 2019 | 2018[b] | Change |
|---|---|---|---|
| North America | $ 487,817 | $ 480,637 | $ 7,180 |
| Latin America | 113,350 | 113,553 | (203) |
| EMAR | 232,847 | 181,240 | 51,607 |
| Asia Pacific | 29,834 | 85,859 | (56,025) |
| **Total Revenue** | $ 863,848 | $ 861,289 | $ 2,559 |
| **Operating Loss** | $ (119,736) | $ (28,121) | $ (91,615) |
| **Operating Margin[a]** | (13.9%) | (3.3%) | (10.6%) |
| **Adjusted Operating Loss[c]** | $ (45,219) | $ (24,817) | $ (20,402) |
| **Adjusted Operating Margin[a]** | (5.2%) | (2.9%) | (2.3%) |

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

(b) Restated to conform with current period presentation.

(c) Adjusted Operating Loss is a non-GAAP measure calculated by adding back to Operating Loss the sum of gain from sale of land, impairment and hyperinflationary adjustments. Adjusted Operating Loss does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies. See *Section 12.0 – Reconciliation of Non-GAAP Measures*.

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

- In North America, revenue increased by $7.2 million, or 1%, primarily as a result of improved large diameter pipe coating revenue. This was partially offset by lower activity levels for small diameter pipe coating, pipe weld inspection and engineering services. The current year was also negatively impacted by the delay of revenue caused by the quality issue at our Channelview facility.
- Latin America revenue was lower by $0.2 million, mainly due to lower activity levels in Argentina and the accounting for IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina – refer to *Section 13.0 – Financial Reporting in Hyperinflationary Economies*. This was almost entirely offset by the execution of the Liza II project in the Veracruz, Mexico facility and higher activity in Brazil.
- Revenue in EMAR increased by $51.6 million, or 28%, primarily due to higher activity levels at the Orkanger, Norway, RAK, Leith, Scotland and the Company's Italian facilities, higher revenue from field joint coating projects and increased pipe weld service activity in the region.
- In Asia Pacific, revenue decreased by $56.0 million, or 65%, mainly due to lower pipe coating project activity at the Kabil, Indonesia and Kuantan, Malaysia facilities.

Operating Loss for the twelve-month period December 31, 2019 was $119.7 million compared to $28.1 million for the twelve-month period ended December 31, 2018, an increase of $91.6 million. Operating Loss in the current year includes the negative impact of the $104.1 million impairment charges and the $7.3 million of rework costs related to the quality issue at our Channelview facility. The decline also reflects a $30.1 million decrease in gross profit and an increase of $12.3 million in amortization of ROU assets, partially offset by a decrease of $10.5 million in amortization of property, plant and equipment, a $32.6 million gain on sale of land and a reduction in SG&A expenses, as explained in *Section 4.1* above. The decrease in the gross margin percentage was primarily due to a 3.6 percentage point decrease in gross margin, partially offset by the higher revenue, as explained above. The decrease in the gross margin percentage was primarily due to lower large project activity in Latin America compared to a year ago, unfavourable product mix in North America, lower utilization in Asia Pacific facilities and the related impact on the absorption of manufacturing overheads, partially offset by higher utilization in EMAR.

On an adjusted basis, Adjusted Operating Loss for the twelve-month period ended December 31, 2019 was $45.2 million compared to $24.8 million for the twelve-month period ended December 31, 2018. See *Section-12.0 Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted Operating Income/Loss.

#### 4.2.2 Composite Systems Segment

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

| (in thousands of Canadian dollars, except operating margin) | 2019 | 2018[b] | Change |
|---|---|---|---|
| North America | $ 405,192 | $ 342,628 | $ 62,564 |
| Latin America | 5,869 | 4,549 | 1,320 |
| EMAR | 3,418 | – | 3,418 |
| Asia Pacific | 2,850 | 581 | 2,269 |
| **Total Revenue** | $ 417,329 | $ 347,758 | $ 69,571 |
| **Operating Income** | $ 55,608 | $ 57,250 | $ (1,642) |
| **Operating Margin[a]** | 13.3% | 16.5% | (3.2%) |
| **Adjusted Operating Income[c]** | $ 59,637 | $ 57,250 | $ 2,387 |
| **Adjusted Operating Margin[a]** | 14.3% | 16.5% | (2.2%) |

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

(b) Restated to conform with current period presentation.

(c) Adjusted Operating Income is a non-GAAP measure calculated by adding back to Operating Income the sum of gain from sale of land, ZCL acquisition costs and other related items. Adjusted Operating Income does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies. See *Section 12.0 – Reconciliation of Non-GAAP Measures*.

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

Operating Income in the twelve-month period ended December 31, 2019 was $55.6 million compared to $57.3 million in the prior year, a decrease of $1.6 million, or 3%. The decrease in Operating Income was primarily due to increases of $7.7 million in amortization of intangible assets primarily related to the acquisition of ZCL and $6.1 million in amortization of ROU assets, as explained in *Section 4.1* above, one-time costs of $3.8 million and ongoing SG&A expenses related to the ZCL acquisition. This was partially offset by a $22.7 million increase in gross profit, driven primarily by the increase in revenue, as explained above.

On an adjusted basis, Adjusted Operating Income in the twelve-month period ended December 31, 2019 was $59.6 million compared to $57.3 million in the prior year. *See Section-12.0 Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted Operating Income.

#### 4.2.3 Automotive and Industrial Segment

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

| (in thousands of Canadian dollars, except operating margin) | 2019 | 2018 | Change |
|---|---|---|---|
| North America | $ 126,164 | $ 115,069 | $ 11,095 |
| EMAR | 74,585 | 76,070 | (1,485) |
| Asia Pacific | 10,354 | 11,115 | (761) |
| **Total Revenue** | $ 211,103 | $ 202,254 | $ 8,849 |
| **Operating Income** | $ 33,215 | $ 32,658 | $ 557 |
| **Operating Margin[a]** | 15.7% | 16.1% | (0.4%) |

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

Revenue increased in the twelve months ended December 31, 2019 by $8.8 million, or 4%, to $211.1 million compared to the prior year, primarily due to increased shipments of wire and cable products in North America, partially offset by lower revenue in the heat shrink tubing products, particularly in the automotive sector.

Operating Income for the twelve months ended December 31, 2019 was $33.2 million, compared to $32.7 million for the comparable period in the prior year. The increase in Operating Income of $0.6 million was primarily due to a $0.4 million higher gross profit and lower SG&A expenses, as explained in *Section 4.1* above. The increase in gross profit was driven by the increase in revenue, as explained above, partially offset by a 1.0 percentage point decrease in gross margin. The decrease in gross margin was primarily due to an unfavourable product mix. In addition, Operating Income was impacted by an increase of $0.9 million in amortization of ROU assets, as explained in *Section 4.1* above.

#### 4.2.4 Financial and Corporate

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

The following table sets forth the Company's unallocated financial and corporate expenses for the following periods:

| (in thousands of Canadian dollars) | 2019[(a)] | 2018 | Change |
|---|---|---|---|
| Financial and corporate expenses | $ (15,498) | $ (11,174) | $ (4,324) |

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

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

## 5.0 LIQUIDITY AND CAPITALIZATION

### Capital Resources

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

The Company expects to generate sufficient cash flows and have continued access to its credit facilities to meet contractual obligations and planned development and growth initiatives as and when they are required. Access to credit facilities is dependent on the Company's compliance with its debt covenants as outlined in *Section 5.5*. The Company expects that working capital investment will be required to support revenue growth consistent with historical working capital measures as noted in *Section 5.4*. The Company typically utilizes its available cash balances and its committed credit facilities to fund working capital requirements.

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

| (in thousands of Canadian dollars) | 2019 | 2018 |
|---|---|---|
| **Net (Loss) Income** | $ (33,295) | $ 26,179 |
| Non-cash items | 128,999 | 91,571 |
| Settlement of decommissioning liabilities | (1,219) | (435) |
| Settlement of other provisions | (14,112) | (10,478) |
| Net change in employee future benefits | 227 | (183) |
| Net change in non-cash working capital and foreign exchange | (26,437) | (76,109) |
| **Cash provided by operating activities** | 54,163 | 30,545 |
| **Cash used in investing activities** | (252,281) | (73,331) |
| **Cash provided by (used in) financing activities** | 81,720 | (41,012) |
| **Foreign exchange impact on cash and cash equivalents and net monetary loss** | (2,648) | 11,997 |
| **Net Change in Cash and Cash Equivalents** | (119,046) | (71,801) |
| Cash and cash equivalents at beginning of Year | 217,264 | 289,065 |
| **Cash and Cash Equivalents at End of Year** | $ 98,218 | $ 217,264 |

### 5.1 CASH PROVIDED BY OPERATING ACTIVITIES

Cash provided by operating activities was $54.2 million in 2019, an increase of $23.6 million compared to the prior year. The change in cash provided by operating activities was primarily due to a $49.7 million increase in net change in non-cash working capital and foreign exchange and a $37.4 million increase in non-cash items. This was offset by a $59.5 million decrease in net income and a $4.4 million increase in settlements of other provisions and decommissioning liabilities.

### 5.2 CASH USED IN INVESTING ACTIVITIES

Cash used in investing activities was $252.3 million, an increase of $179.0 million compared to the prior year. This was primarily due to a $291.5 million increase in business acquisition net of cash acquired on the ZCL acquisition. This was partially offset by $43.2 million of proceeds received from the sale of land, $29.2 million from the redemption of investment in an associate, a $31.3 million decrease in the purchase of property, plant and equipment, a $4.0 million decrease in other assets and a $4.1 million decrease in short-term investment.

### 5.3 CASH USED IN FINANCING ACTIVITIES

Cash provided by financing activities during 2019 was $81.7 million, an increase of $122.7 million compared to the prior year. The change was primarily due to the $165.7 million net increase in long-term debt to finance the ZCL acquisition. This was partially offset by a $17.6 million decrease in bank indebtedness related to repayment of ZCL's legacy debt, a $23.8 million increase in repayment of lease liabilities and a $1.5 million decrease in issuance of shares.

### 5.4 WORKING CAPITAL MEASURES

The Company expects the current level of net working capital will be sufficient to support the level of business activity projected in 2020; however, unexpected increases in business activity or specific project requirements may result in higher investment in working capital. Any such increase in requirements will be financed from the Company's cash balances and available committed credit facilities.

### Accounts Receivables

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

| (in thousands of Canadian dollars, except DSO) | 2019 | 2018 | Change |
|---|---|---|---|
| Average trade accounts receivable – net | **$ 228,461** | $ 221,911 | $ 6,550 |
| DSO[(a)] | **62** | 56 | 6 |

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

Average trade accounts receivables increased by $6.6 million or 3.0% as at December 31, 2019 compared to December 31, 2018, primarily due to the acquisition of ZCL. DSO increased by 6 days as a result of the timing of billing and collections, the decrease in revenue in the fourth quarter of 2019 compared to the same period in the prior year, as explained in *Section 6.1 – Fourth Quarter Highlights*, and the increase in the average trade accounts receivable as explained above.

### Inventory

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

| (in thousands of Canadian dollars) | 2019 | 2018 | Change |
|---|---|---|---|
| Inventory | **$ 160,792** | $ 136,997 | $ 23,795 |

Inventories increased by $23.8 million or 17.4% as at December 31, 2019 compared to December 31, 2018, reflecting the acquisition of ZCL, increases of $14.3 million in finished goods and $3.7 million in work in process, a decrease of $1.2 million in raw materials and the positive impact of a $7.0 million decrease in obsolescent inventory.

### Accounts Payable

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

| (in thousands of Canadian dollars, except DPO) | 2019 | 2018 | Change |
|---|---|---|---|
| Average accounts payable and accrued liabilities | **$ 199,355** | $ 197,695 | $ 1,660 |
| DPO[(a)] | **76** | 70 | 6 |

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

Average accounts payable and accrued liabilities increased by $1.7 million or 0.8% as at December 31, 2019 compared to December 31, 2018, primarily due to the acquisition of ZCL. DPO increased by 6 days from 2018 levels, due to the timing of purchases and payments in the fourth quarter of 2019 compared with the fourth quarter of 2018.

## 5.5 LONG-TERM DEBT AND SENIOR NOTES

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

| (in thousands of Canadian dollars) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Long-term Debt | **$ 435,462** | $ – |
| Senior Notes | **–** | 267,781 |
| **Total long-term debt** | **$ 435,462** | $ 267,781 |

### Credit Facilities

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

| (in thousands of Canadian dollars) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Borrowings on credit facility | **$ 438,000** | $ – |
| Deferred transaction costs | **(2,538)** | – |
| Total long-term debt | **$ 435,462** | $ – |
| Standard letters of credit for financial guarantees, performance and bid bonds | **36,940** | 43,879 |
| Total utilized credit facilities | **$ 472,402** | $ 43,879 |
| Total available credit facilities[(a)] | **747,976** | 500,498 |
| **Unutilized Credit Facilities** | **$ 275,574** | $ 456,619 |

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

On March 13, 2019, the Company renewed its Unsecured Committed Bank Credit Facility ("Credit Facility") for a period of four years, with the maximum borrowing limit of US$500 million, an increase of US$183 million over the previous Credit Facility's borrowing limit. The increase in the Credit Facility was intended, in part, to fund the acquisition of ZCL. The Company pays a floating interest rate on this Credit Facility that is a function of the Company's Net Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), and before foreign exchange gains or losses, and non-recurring and one-time items. The Company is required to maintain an Interest Coverage Ratio of not less than 3.00:1.00 and a Net Leverage Ratio of not greater than 3.50:1.00. For calculating the Net Leverage Ratio, Net Debt excludes the first $100 million of performance and bid bond letters of credit and all standard letters of credit that are guaranteed by Export Development Canada (EDC).

The Company wrote off the remaining deferred financing costs of $0.8 million pertaining to its previous Credit Facility in the first quarter of 2019.

The Company was in compliance with the covenants under the Existing Facility as at December 31, 2019 and December 31, 2018.

Subsequent to December 31, 2019, the Company entered into an amending agreement with its existing syndicate of lenders under the Credit Facility. The principal amendment to the Credit Facility was an increase in the Company's Net Leverage Ratio (currently a maximum of 3.50x) to 4.25x for the twelve months trailing ending March 31, 2020 and June 30, 2020, and 4.00x for the twelve months trailing ending September 30, 2020. The Company will incur fees and expenses to implement these amendments of approximately $1 million in the first quarter of 2020.

**Senior Notes**

The total long-term debt balance as at December 31, 2018 was $267.8 million (US$196.8 million). The long-term debt was designated as a hedge of the Company's net investment in its US dollar functional currency subsidiary in 2018.

On March 7, 2019, the Company used a combination of cash and bank debt to repay the entire principal amount outstanding and accrued interest of $266.5 million (US$199.8 million) and a make-whole amount of $7.0 million (US$5.2 million). In addition, the Company wrote off $0.7 million of the remaining deferred financing costs and $3.9 million of cash flow hedge losses previously recorded in other comprehensive income in the first quarter of 2019.

## 5.6 COMMITMENTS, LEASES, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

| | 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| (in thousands of Canadian dollars) | $ | $ | $ | $ | $ | $ | $ |
| Purchase commitments | 103,464 | – | – | – | – | – | 103,464 |
| Accounts payable | 74,191 | – | – | – | – | – | 74,191 |
| Long-term debt | – | – | – | 435,462 | – | – | 435,462 |
| Obligations under leases[a] | 24,600 | 19,363 | 15,710 | 12,684 | 7,040 | 17,677 | 97,074 |
| Common area maintenance obligations under leases | 2,030 | 1,784 | 1,485 | 1,018 | 628 | 3,572 | 10,517 |
| Low value/short-term leases[a] | 1,863 | 1,236 | 1,241 | 1,352 | 1,349 | 4,317 | 11,358 |
| Total | **206,148** | **22,383** | **18,436** | **450,516** | **9,017** | **25,566** | **732,066** |

(a) See IFRS 16 – *Leases* in *Section 8.4 – New Accounting Standards Adopted*.

*Legal Claims*

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

*Performance, Bid and Surety Bonds*

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

The Company utilizes the Credit Facility to support its bonds. The Company has utilized total credit facilities of $36.9 million as at December 31, 2019 (December 31, 2018 – $43.9 million) for support of its bonds. In addition, as at December 31, 2019, the Company had $50.8 million of outstanding surety bonds through insurance companies (December 31, 2018 – $66.3 million).

## 5.7 FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

**Fair Value**

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

**Level 1** – Quoted prices in active markets for identical instruments that are observable.

**Level 2** – Quoted prices in active markets for similar instruments; inputs other than quoted prices that are observable and derived from or corroborated by observable market data.

**Level 3** – Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

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

The following table presents the fair value of financial assets and liabilities in the fair value hierarchy as at December 31, 2019:

| (in thousands of Canadian dollars) | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 98,218 | $ 98,218 | $ – | $ – |
| Loans receivable | 712 | – | 712 | – |
| Derivative financial instruments | 177 | – | 177 | – |
| Deposit guarantee | 242 | – | 242 | – |
| | $ 99,349 | $ 98,218 | $ 1,131 | $ – |
| **Liabilities** | | | | |
| Long-term debt | 435,462 | – | 435,462 | – |
| Derivative financial instruments | 330 | – | 330 | – |
| | $ 435,792 | $ – | $ 435,792 | $ – |

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.

**Financial Risk Management**

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

**Market Risk**

*Foreign Exchange Risk*

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are denominated in foreign currencies. As a result, the Company's consolidated revenue, expenses and financial position may be impacted by fluctuations in foreign exchange rates as these foreign currency items are translated into Canadian dollars. As at December 31, 2019, fluctuations of +/- 5% in the Canadian dollar, relative to those foreign currencies, would impact the Company's consolidated revenue, income from operations, and net income (attributable to shareholders of the Company) for the year ended December 31, 2019 by approximately $57.9 million, ($4.8) million and ($6.6) 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 $60.1 million, $13.1 million and $47.0 million, respectively, as at December 31, 2019. Please also refer to *Section 13.0 – Financial Reporting in Hyperinflationary Economies*, for the impact of adopting IAS 29 for Argentina.

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

*Foreign Exchange Forward Contracts*

The Company utilizes financial instruments to manage the risk associated with foreign exchange rates. The Company formally documents all relationships between hedging instruments and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

The following table sets out the notional amounts outstanding under foreign exchange forward contracts, the average contractual exchange rates and the settlement of these contracts as at December 31, 2019:

| (in thousands, except weighted average rate amounts) | |
|---|---|
| US dollars sold for Euros | |
| Less than one year | US$ 19,519 |
| Weighted average rate | 0.89 |
| US dollars sold for British pounds | |
| Less than one year | US$ 3,233 |
| Weighted average rate | 0.77 |
| Euros sold for US dollars | |
| Less than one year | € 11,726 |
| Weighted average rate | 1.11 |
| Norwegian Kroners sold for US dollars | |
| Less than one year | NOK 37,428 |
| Weighted average rate | 0.11 |
| Canadian Dollars sold for British Pounds | |
| Less than one year | CDN$ 7,775 |
| Weighted average rate | 0.58 |

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

As at December 31, 2019, the Company had notional amounts of $60.0 million of foreign exchange forward contracts outstanding (December 31, 2018 – $60.3 million) with the fair value of the Company's net loss from all foreign exchange forward contracts totalling $0.2 million (December 31, 2018 – $0.9 million net gain).

*Interest Rate Risk*

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2019:

| (in thousands of Canadian dollars) | Non-interest Bearing | Floating Rate | Fixed Interest Rate | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash equivalents | $ – | $ – | $ 2,538 | $ 2,538 |
| Loans receivable | – | 712 | – | 712 |
| | $ – | $ 712 | $ 2,538 | $ 3,250 |
| **Financial Liabilities** | | | | |
| Standard letters of credit for performance, bid and surety bonds | $ 36,940 | $ – | $ – | $ 36,940 |
| Long-term debt | – | 435,462 | – | 435,462 |
| | $ 36,940 | $ 435,462 | $ – | $ 472,402 |

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

*Credit Risk*

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

For the year ended December 31, 2019, there was no customer who generated more than 10% of total consolidated revenue (2018 – there was no customer who generated more than 10% of total consolidated revenue). As at December 31, 2019, no customer accounted for more than 10% of the Company's total trade accounts receivable (2018 – no customer accounted for more than 10% of the Company's total trade accounts receivable).

The carrying value of accounts receivable is reduced using expected credit loss ("ECL"), and the amount of the loss is recognized in the consolidated statements of income with a charge to SG&A expenses. When a receivable balance is considered to be uncollectible, it is written off against the ECL. Subsequent recoveries of amounts previously written off are credited against SG&A expenses.

As at December 31, 2019, $15.0 million, or 7%, of trade accounts receivable was more than 90 days overdue, compared to $13.3 million, or 6%, as at December 31, 2018. The Company expects to receive full payment on accounts receivable that are neither past due nor impaired.

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

| (in thousands of Canadian dollars) | 2019 | 2018 |
|---|---|---|
| **Balance – Beginning of Year** | $ (4,771) | $ (2,809) |
| ECL expense | (608) | (2,402) |
| Recovery of amounts previously provided for | 1,448 | 401 |
| ECL written off | 205 | 178 |
| Impact of change in foreign exchange rates | (143) | (139) |
| **Balance – End of Year** | $ (3,869) | $ (4,771) |

*Liquidity Risk*

The Company's objective in managing liquidity risk is to maintain sufficient, readily available cash reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents and through the availability of funding from committed credit facilities. Access to credit facilities is dependent on the Company's compliance with its debt covenants as outlined in *Section 5.5 – Long-term Debt and Senior Notes*. As at December 31, 2019, the Company had cash and cash equivalents totalling $98.2 million (December 31, 2018 – $217.3 million) and had unutilized lines of credit available to use of $275.6 million (December 31, 2018 – $456.6 million).

### 5.8 OUTSTANDING SHARE CAPITAL

As at February 25, 2020, the Company had 70,164,068 common shares outstanding and stock options and share units outstanding to purchase up to 2,027,492 common shares.

### 5.9 TRANSACTIONS WITH RELATED PARTIES

The Company had no material transactions with related parties in the year ended December 31, 2019. All related party transactions were in the normal course of business.

## 6.0 QUARTERLY SELECTED FINANCIAL INFORMATION

The following tables set forth the Company's summary of selected financial information for the four quarters of 2019 and 2018:

| (in thousands of Canadian dollars except per share amounts) | Q1-2019 | Q2-2019 | Q3-2019 | Q4-2019 |
|---|---|---|---|---|
| **Operating Results** | | | | |
| Revenue | $ 349,578 | $ 411,789 | $ 394,015 | **$ 334,107** |
| Income from operations | 7,634 | 29,376 | 17,117 | **(100,538)** |
| Net (loss) income[(a)] | (9,074) | 51,044 | 6,520 | **(81,783)** |
| **Earnings per share** | | | | |
| Basic | $ (0.13) | $ 0.73 | $ 0.09 | **$ (1.17)** |
| Diluted | (0.13) | 0.73 | 0.09 | **(1.17)** |

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

(a) Attributable to shareholders of the Company.

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

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

- The Company's operations in the Pipeline and Pipe Services segment, representing 58% of the Company's consolidated revenue in 2019, are largely based on pipe coating activity. The nature and timing of pipe coating projects can result in variability in the Company's quarterly revenue and profitability. In addition, certain of the Company's operations are subject to a degree of seasonality, particularly in the Pipeline and Pipe Services and Composite Systems segments.
- Over 78% of the Company's revenue in 2019 was transacted in currencies other than Canadian dollars, with a majority transacted in US dollars. Changes in the rates of exchange between the Canadian dollar and other currencies could have a significant effect on the amount of revenue when it is translated into Canadian dollars. Please refer to *Section 2.2 – Foreign Exchange Impact*, for additional information with respect to the effects of foreign exchange fluctuations on the results of the Company.

### 6.1 FOURTH QUARTER HIGHLIGHTS

Despite several challenges in the fourth quarter of 2019 that negatively impacted revenues, Adjusted EBITDA[1] for the quarter was in line with expectations. These results reflect lower demand for products and services related to North America drilling and completions due to the annual seasonal slowdown and year-end budget exhaustion. The results were also negatively impacted by a quality issue on an offshore product at our Channelview facility which resulted in rework costs of $7.3 million and the delay of other revenue from the disruption of the event. The Company has successfully identified the root cause of the issue and is completing the rework. The event has been fully addressed to the satisfaction of the customer and mitigation action has been taken to prevent future events. On the positive side, demand was solid in the quarter for our retail fuel composite tanks and wire and cable products.

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

**Fourth Quarter 2019 versus Fourth Quarter 2018**

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

  In the Pipeline and Pipe Services segment, revenue in the fourth quarter of 2019 was $188.3 million, or 14% lower than in the fourth quarter of 2018, primarily due to lower demand for the Company's products and services in the US land market. The US land operators' continued focus on capital discipline and delays in land transmission line projects has resulted in a decline for the Company's small diameter pipe coating services and call-out and project related girth weld inspection services. North American pipe coating activity was also impacted by the quality issue at our Channelview facility. In addition, lower pipe coating activity was experienced in the Latin America and Asia Pacific regions, partially offset by higher activity in the EMAR region. See *Section 4.2.1 – Pipeline and Pipe Services Segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

  In the Composite Systems segment, revenue was $9.3 million higher during the fourth quarter of 2019, compared to $89.3 million in the fourth quarter of 2018, primarily due to the addition of the ZCL acquisition in 2019 and continued solid demand for its composite tank products for the retail fuel and water markets. This was partially offset by lower revenues for composite pipe products and tubular management services due to the lower demand in the US land market and the continued weakness in Western Canada. The integration of the acquired ZCL Composites business continued as planned during the quarter and the Company has achieved 95% of the $8 million annualized run-rate cost synergies targeted by the end of the first quarter 2020. Synergies have been realized through the integration of functional experience within the Composites Systems segment, leveraging back-office services and realizing operating and procurement efficiencies. While still in the early stages, the Company continues to make progress on expanding the addressable market for composite tanks by the improvement of distribution channels, linking discrete components into combined systems of composite pipe and tank, development of an integration approach to grow the water market and leveraging the Company's global footprint to extend the reach of tank technology. See *Section 4.2.2 – Composite Systems Segment* for additional disclosure with respect to the change in revenue in the Composite Systems segment.

In the Automotive and Industrial segment, revenue was $0.6 million higher during the fourth quarter of 2019, compared to $47.6 million in the fourth quarter of 2018, due to increased activity levels in North America for its wire and cable products, partially offset by lower revenue in EMAR for its automotive heat shrink tubing products. See *Section 4.2.3 – Automotive and Industrial Segment* for additional disclosure with respect to the change in revenue in the Automotive and Industrial segment.

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

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

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

  On an adjusted basis, Adjusted Operating Income was $2.7 million in the fourth quarter of 2019 compared to $6.8 million in the fourth quarter of 2018. See *Section 12.0 Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted Operating Income.
- **Income from investments in associates:** In the fourth quarter of 2019, the Company recorded $5.5 million as income from investments in associates, mainly attributable to its share in Zedi, pertaining to the additional sale of the parts of operations of Zedi and revision to the estimates relating to the outcome of the sale of operations of Zedi.
- **Finance costs:** In the fourth quarter of 2019, net finance costs were $5.7 million, compared to net finance costs of $3.6 million during the fourth quarter of 2018. The increase in net finance costs was primarily due to a $2.3 million increase in interest expense on long-term debt, primarily due to the increase in indebtedness arising from the acquisition of ZCL in April 2019, a reduction of $0.4 million in interest income and a $1.2 million increase in interest expense on ROU assets on adoption of IFRS 16. This was partially offset by a $1.8 million reduction in other financing expenses.
- **Income taxes:** The Company recorded an income tax recovery of $20.3 million (20% of loss before income taxes) in the fourth quarter of 2019, compared to an income tax recovery of $1.4 million (53% of income before income taxes) in the fourth quarter of 2018. The effective tax rate in the fourth quarter of 2019 was lower than the Company's statutory income tax rate of 27% primarily due to the impact of income taxes on the impairment charge recorded in the fourth quarter and the mix of jurisdictions where the income was earned.
- **Net (Loss) Income:** Net income decreased by $86.2 million, from a net income of $4.4 million during the fourth quarter of 2018 to a net loss of $81.8 million during the fourth quarter of 2019. This was mainly due to the decrease of $109.9 million in operating income, which includes the $104.1 million impairment charge and other items explained above, and a $2.1 million increase in net finance costs, as explained above. This was partially offset by a $18.9 million increase in income tax recovery. Please also refer to *Section 12.0 – Reconciliation of Non-GAAP Measures* for Adjusted Net Income Attributable to Shareholders.

## 7.0 DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, together with the management of the Company, have evaluated the effectiveness of the Company's Disclosure Controls and Procedures ("DC&Ps") (as defined in the rules of the Canadian Securities Administrators) and the effectiveness of Internal Controls Over Financial Reporting ("ICFR"). Based on that evaluation, they have concluded that the Company's DC&Ps were effective as at December 31, 2019. Furthermore, they have concluded that the Company's ICFR was effective as at December 31, 2019. There were no changes in the Company's ICFR during 2019 that had or are reasonably likely to have a material impact on the Company's ICFR.

## 8.0 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

### 8.1 CRITICAL JUDGEMENTS

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

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

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

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

**Business Acquisitions**
Significant judgements and assumptions are made in determining the purchase price allocation for acquired companies. Management has exercised professional judgement in determining the total consideration paid in an acquisition, including any contingent consideration, and in determining the assets and liabilities that should be part of the purchase price accounting. Management has also exercised judgement in identifying intangible assets and in choosing

the appropriate valuation models and techniques to determine their fair values. Management has also exercised professional judgement in characterizing the composition of any residual goodwill.

**Provisions and Contingent Liabilities**
As at December 31, 2019, the Company had $46.2 million of provisions; of this amount $25.7 million was included in current liabilities and $20.5 million was included in non-current liabilities. Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable that there will be a future outflow of economic benefits resulting from past operations or events and the amount of the cash outflow can be reliably measured. The timing of recognition and measurement of the provision requires the application of judgement to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take into account changing facts and circumstances.

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

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

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

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

## 8.2 CRITICAL ACCOUNTING ESTIMATES

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

Critical estimates used in preparing the consolidated financial statements include:

**Long-lived Assets and Goodwill**
As at December 31, 2019, the Company had $1,153.5 million of long-lived assets and goodwill. The Company evaluates the carrying values of the CGUs' goodwill on an annual basis on October 31 of each year to determine whether or not impairment of these assets has occurred and whether write downs of the value of these assets are required. Similarly, the Company evaluates the carrying values of CGUs for long-lived assets whenever circumstances arise that could indicate impairment or reversal of impairment, and at each reporting date. These impairment tests include certain assumptions regarding discount rates and future cash flows generated by these assets in determining the value-in-use and fair value less costs to sell calculations. Actual results could differ from these assumptions and estimates.

As a result of the Company's annual impairment testing on property, plant and equipment, intangible assets and goodwill, impairment charges of $104.1 million were recorded in the fourth quarter of 2019. The impairment charges included $90.9 million on intangible assets and goodwill for Shawcor Inspection Services and $13.2 million on assets at two pipe coating facilities, Pearland, Texas and Kuantan, Malaysia, due to the current market conditions for these assets and the Company's assessment of the related future demand and market recovery.

**Employee Future Benefit Obligations**
As at December 31, 2019, the Company had $15.4 million of employee future benefit obligations. The Company provides future benefits to its employees under a number of defined benefit arrangements. The calculation of the defined benefit obligation recognized in the consolidated financial statements includes a number of assumptions regarding discount rates, rates of employee compensation increases, rates of inflation, and life expectancies. The outcome of any of these factors could differ from the estimates used in the calculations and have an impact on operating expenses, non-current assets and non-current liabilities.

**Decommissioning Liabilities**
As at December 31, 2019, the Company had decommissioning liabilities in the amount of $22.6 million; of this amount $6.3 million was included in the current provisions account and $16.3 million was recorded in the non-current provisions account. Decommissioning liabilities include legal and constructive obligations related to owned and leased facilities. These have been recorded in the consolidated financial statements based on estimated future amounts required to satisfy these obligations. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a current pre-tax risk-free rate.

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

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

Given the wide range of international business relationships and the 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.

**Leases**

The incremental borrowing rate used to determine the present value of the Company's lease liabilities is a critical accounting estimate. The measurement of the Company's lease liabilities depends on the interest rate implicit in the lease used to discount the remaining lease payments. If the interest rate implicit in the lease cannot be readily determined, the lease payments are discounted using the Company's incremental borrowing rate.

### 8.3 ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

**Definition of a Business – Amendments to IFRS 3**

The IASB issued amendments to the definition of a business in IFRS 3, *Business Combinations* ("IFRS 3") to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed. The Company performed an impact assessment on these amendments and determined that there will be no material impact of adopting this standard on its consolidated financial statements.

### 8.4 NEW ACCOUNTING STANDARDS ADOPTED

**IFRS 16, *Leases***

IFRS 16, *Leases* ("IFRS 16") issued by the IASB in January 2016, supersedes IAS 17, *Leases* ("IAS 17") (and related interpretations). The standard was effective for annual periods beginning on or after January 1, 2019. The new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the consolidated financial statements of both lessees and lessors. This standard eliminates the classification of leases as either an operating or finance lease for a lessee, and instead, all leases are capitalized by recognizing the present value of lease payments and presenting them as lease assets.

The Company used the following practical expedients and recognition exemptions when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Used the exemption to not recognize ROU assets and liabilities for leases with a remaining lease term of less than 12 months as at January 1, 2019;
- Used the exemption to not recognize ROU assets and liabilities for leases with low value;
- Excluded initial direct costs from measuring the ROU assets at the date of initial application;
- Grandfathered the definition of a lease for existing contracts at the date of initial application;
- Used hindsight in determining lease term at the date of initial application;
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application; and
- Used a portfolio application for leases with similar characteristics, such as vehicle and equipment leases.

The Company applied the standard using the modified retrospective approach, which does not require a restatement of prior period financial information as it recognizes the cumulative effect of applying the standard to prior periods as an adjustment to opening retained earnings as at January 1, 2019.

The adoption of IFRS 16 resulted in the recognition of right-of-use assets, mainly related to land and buildings. The Company recorded ROU assets of $58.9 million, lease liabilities of $62.2 million and a reduction of shareholders' equity of $3.0 million, as at January 1, 2019.

The Company recognizes 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, 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; however, there is a practical expedient to combine lease and non-lease components. 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 lease payments to be made over the lease term. The lease payments include fixed payments and variable lease payments that depend on an index or a rate less any lease incentives. 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.

The incremental borrowing rate used to determine the present value of the Company's lease liabilities is a critical accounting estimate. The measurement of the Company's lease liabilities depends on the interest rate implicit in the lease used to discount the remaining lease payments. If the interest rate implicit in the lease cannot be readily determined, the lease payments are discounted using the Company's incremental borrowing rate. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over a similar term and security, the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment. Significant assumptions are required to be made on the basis for which the rate was derived. These assumptions are considered to be a key source of estimation uncertainty. When measuring the lease liabilities, the Company discounted lease payments using the incremental borrowing rate at January 1, 2019 based on the geographical location of the leased assets. This resulted in the use of an incremental borrowing rate ranging from 2.3% up to 33.1% for the hyperinflationary environment of Argentina.

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

**IFRIC 23, *Uncertainty over Income Tax Treatments***
In June 2017, the IASB published IFRIC 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23"), effective for annual periods beginning on or after January 1, 2019. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgement in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The Company performed an impact assessment of all aspects of IFRIC 23 and determined that there was no material impact of adopting this standard on its consolidated financial statements.

## 9.0 ORDER BACKLOG & OUTLOOK

**Order Backlog**
The Company's order backlog consists of firm customer orders only and represents the revenue the Company expects to realize on booked orders over the succeeding twelve months. The Company reports the twelve-month billable backlog because it provides a leading indicator of significant changes in consolidated revenue. The order backlog of $513 million as at December 31, 2019, was slightly higher than the $509 million as at September 30, 2019. This increase is primarily due to pipe coating project wins moving from bid to backlog offset by revenue generated in the quarter from backlog orders. The current backlog does not include secured orders to be executed beyond twelve months, which is also in-line with the prior quarter due to the recent announcements of project awards.

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

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

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

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

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

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

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

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

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

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

## 10.0 RISKS AND UNCERTAINTIES

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

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

### 10.1 ECONOMIC RISKS

**A decline in North American land drilling and completion activity as a consequence of lower global oil and gas prices would have a material adverse effect on the Company's projections, business, results of operations and financial condition.**

The Company's business is materially dependent on the level of North American land drilling and completion activity, which, in turn depends on global oil and gas demand, prices and production depletion rates. Lower land drilling and completion activity decreases demand for the Company's products and services, including small diameter pipe coating, composite pipe, gathering line weld inspection and tubular inspection and inventory management services. These business activities represented approximately 32% of 2019 revenues.

**An economic downturn or a continued global decline in energy prices could materially adversely affect demand for the Company's products and services and, consequently, its projections, business, results of operations and financial condition.**

Demand for oil and natural gas is influenced by numerous factors, including the North American and worldwide economies as well as activities of the Organization of Petroleum Exporting Countries ("OPEC") and Russia. Economic declines impact demand for oil and natural gas and result in a softening of oil and gas prices and projected oil and gas drilling activity. If economic conditions or international markets decline to an extent or for a duration which is unexpected, the Company's projections, business, results of operations and financial condition could be materially adversely affected. In addition, if actions by OPEC, Russia and other oil producers to increase production of oil adversely affect world oil prices or result in the maintenance of existing prices, additional declines in exploration and production operators' spend could result, and the Company's projections, business, results of operations and financial condition could be materially adversely affected. Similarly, demand for the products of the composite tank and Automotive and Industrial segment businesses are dependent on the level of general economic activity in North America and Europe. Decreases in economic activity in these regions could result in significant decreases in activity levels in these businesses.

**A cyclical decline in the level of global pipeline construction could have a material adverse effect on the Company's projections, business, results of operations and financial condition.**

The Company's business is dependent on the level of global pipeline construction activity which in turn relates to the growth in demand for oil and natural gas and the availability of new supplies to meet this increased demand. Reductions in capital spending by pipeline owners could decrease demand for the Company's products and services supplied in pipeline markets.

Revenue generated by the Company's Pipeline and Pipe Services segment accounted for 58% of consolidated sales in 2019. Any significant declines in pipeline market activity could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

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

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

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

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

**The Company may not achieve the intended benefits of the ZCL acquisition.**

Achieving the benefits of the ZCL acquisition is dependent, in part, on the successful integration and consolidation of functions, operations and related personnel in a timely and efficient matter, as well as the ability to capture the expected cost synergies and revenue growth opportunities from the expanded addressable market. There can be no assurance that the Company will be able to complete its integration plans successfully and realize the anticipated cost savings and revenue growth from the acquisition in the anticipated amounts or within the anticipated timeframes. Failure to realize the expected cost synergies related to the acquisition could result in increased costs and have an adverse effect on the Company's financial results and prospects. The integration plan for the ZCL acquisition will require significant management effort, time and resources, which may divert management's focus from other strategic opportunities and operational matters that could adversely affect results or delay the achievement of the Company's strategic objectives.

Although the Company conducted what it believes to be a thorough level of due diligence prior to the acquisition of ZCL, there is a potential risk of unknown or undisclosed liabilities related to ZCL's operations, which could include tax, litigation, environmental and other matters. In addition, to the extent that ZCL failed to comply with or otherwise violated applicable laws, including environmental laws, the Company, as a successor to ZCL, may be financially responsible for these violations. The discovery of any material undisclosed liabilities could have a material adverse effect on the Company's business, financial condition and results of operations.

In connection with the acquisition of ZCL, the Company has undertaken additional indebtedness to fund the acquisition. This has significantly increased the Company's consolidated indebtedness, interest expense and debt service obligations. The increased indebtedness will require the Company to dedicate an increased amount of its cash flow to servicing this debt, thereby reducing the availability of cash to fund other business initiatives which could have an adverse effect on the Company results, operations or delay the achievement of its strategic objectives.

**Economic Risk Mitigation**

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

### 10.2 LITIGATION AND LEGAL RISKS

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

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

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

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

**Litigation and Legal Risk Mitigation**

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

### 10.3 HSE RISKS

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

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

**HSE Risk Mitigation**

To minimize risks associated with HSE matters, the Company has implemented a comprehensive audit program and has completed detailed environmental audits at manufacturing and service locations across all eight divisions. Furthermore, the Company is committed to be an IIF workplace and continued reduction of its impact on the environment.

### 10.4 POLITICAL AND REGULATORY RISKS

**The Company's operations may experience interruptions due to political, economic or other risks, which could adversely affect the Company's projections, business, results of operations and financial condition.**

During 2019, the Company derived over 14% of its total revenue from its facilities outside Canada, the US and Western Europe. In addition, part of the Company's sales from its locations in Canada and the US were for use in other countries. The Company's operations in certain international locations are subject to various political and economic conditions existing in those countries that could disrupt operations. These risks include:

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

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

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

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

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

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

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

The Company has various facilities that export products to the United States and other countries. Any changes to trade or tax laws, including the failure to implement the provisions of the United States-Mexico-Canada agreement on trade, that negatively impact the competitiveness of the Company's exports or products could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

*Political and Regulatory Risk Mitigation*

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

### 10.5 CLIMATE CHANGE RISKS

**Changes in climate conditions and regulatory regimes could adversely affect the Company's projections, business, results of operations and financial condition.**

Many governments are moving to introduce climate change related rules at the international, national, state, provincial and local levels. Where legislation already exists, regulations relating to "greenhouse gases" and other emission levels and energy efficiency are becoming more stringent. Regulatory requirements, however, are not consistent across the regions in which the Company operates. In addition, concerns about climate change have resulted in environmental activists and members of the public increasingly opposing the continued exploitation, development, transportation and use of fossil fuels.

Compliance with climate change-related requirements may require significant capital outlays that may cause material changes or delays in the Company's intended activities. The direct or indirect costs of compliance may have a material adverse effect on the Company's costs of operations. The Company's business could also be indirectly impacted by climate change-related laws and regulations affecting its customers and suppliers.

Climate change and, more generally, the transition to a low carbon economy entail physical, regulatory and reputational risks. Although the Company is not a large producer of greenhouse gases, the products and services of the Company's production are mainly related to the transmission of hydrocarbons including crude oil and natural gas, whose ultimate consumption are major sources of greenhouse gas emissions. Changes in the regulations concerning the release of greenhouse gases into the atmosphere, including the introduction of "carbon taxes" or limitations over the emissions of greenhouse gases, may adversely impact the demand for hydrocarbons and ultimately, the demand for the Company's products and services.

**Unusual or unfavourable weather conditions relating to climate change may cause supply chain and operational disruptions as well as reduced sales.**

The physical impacts of increasingly volatile weather conditions may have an adverse effect on the operations of the Company. These include more frequent and extreme weather events, shifts in temperature ranges and precipitation, natural disasters, resource shortages, changing sea levels and changing temperatures, some or all of which could cause catastrophic impacts to the resources, materials, facilities or operations of the Company's customers and suppliers.

Climate change may have similar impacts on the Company's major customers, reducing demand for its products, and may also impact suppliers, which could result in shortages in certain consumables and other products required to maintain the Company's operations. While the Company undertakes ongoing climate change risk assessment and implementation of mitigation strategies to address, where possible, the risks associated with the impacts of extreme weather events, the frequency and severity of such events can vary widely and cannot be predicted. This uncertainty, in turn, could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

#### 10.6 INFORMATION SYSTEMS AND CYBERSECURITY RISKS

**A disruption of information technology services or a cyber-security breach may adversely affect the Company.**

The Company places significant reliance on our information technology ("IT) systems to operate our business and is dependent upon the availability, capacity, reliability, and security of our IT infrastructure and our ability to expand and continually update this infrastructure, to conduct daily operations. In the event that the Company is unable to secure our software and hardware, effectively upgrade systems and network infrastructure and take other steps to maintain or improve our systems, the operation of such systems could be interrupted or result in the loss, corruption or release of confidential data.

These IT systems are subject to a variety of security risks, which are growing in both complexity and frequency and could include potential breakdown, cyber phishing, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of our IT systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to our operations and business activities. In addition, a successful attack on our IT security could result in a loss or theft of our financial resources, critical data and information or could result in a loss of control of our technological infrastructure or financial resources.

The Company maintains security policies and procedures that include employee protocols with respect to electronic communications and electronic devices, encryption protection of all computers and portable electronic devices and conducts annual cyber-security assessments. The Company applies technical and process controls in line with industry-accepted standards and best practices to protect our information, assets and systems, including a written incident response plan for responding to a cyber-security incident. However, due to the variety, sophistication and frequency of change in technology, these controls may not adequately prevent cyber-security breaches. Disruption of critical information technology services, or breaches of information security, could have a material negative effect on our business, financial condition, and results of operations, as well as on our reputation.

## 11.0 ENVIRONMENTAL MATTERS

As at December 31, 2019, the provisions on the annual consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were $22.6 million. The Company believes these provisions to be sufficient to fully satisfy all liabilities related to known environmental matters.

The total undiscounted cash flows estimated to settle all decommissioning liabilities were $28.5 million as at December 31, 2019. The current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0% and 13%. Settlement for all decommissioning liabilities is expected to be funded by future cash flows from the Company's operations.

The Company expects the following cash outflows over the next five years and thereafter for remediating its decommissioning liability obligations:

| (in thousands of Canadian dollars) | | December 31, 2019 |
|---|---|---|
| 2020 | $ | **6,293** |
| 2021 | | **4,104** |
| 2022 | | **615** |
| 2023 | | **703** |
| 2024 | | **1,697** |
| More than five years | | **15,122** |
| | $ | **28,534** |

## 12.0 RECONCILIATION OF NON-GAAP MEASURES

The Company reports on certain non-GAAP measures that are used to evaluate its performance and segments, as well as to determine compliance with debt covenants and to manage its capital structure. These non-GAAP measures do not have standardized meanings under IFRS and are not necessarily comparable to similar measures provided by other companies. The Company discloses these measures because it believes that they provide further information and assist readers in understanding the results of the Company's operations and financial position. These measures should not be considered in isolation or used in substitution for other measures of performance prepared in accordance with GAAP. The following is a reconciliation of the non-GAAP measures reported by the Company.

**EBITDA and Adjusted EBITDA**

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

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

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

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

### Adjusted Net Income and Adjusted EPS

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

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

### Operating Margin/Adjusted Operating Margin

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

### Adjusted Operating Income

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

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

### Consolidated

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

### Pipeline and Pipe Services Segment

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

### Composite Systems Segment

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

### Return on Invested Capital

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

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

| (in thousands of Canadian dollars, except percentage) | **2019** | 2018 |
|---|---|---|
| Net (loss) income[(a)] | **$ (33,293)** | $ 25,876 |
| Add: After-tax interest expense | **27,228** | 10,934 |
| Net (loss) income adjusted for after-tax interest expense | **$ (6,065)** | $ 36,810 |
| Average invested capital | **$ 1,438,380** | $ 1,305,660 |
| **ROIC** | **(0.4%)** | 2.8% |

(a) Attributable to shareholders of the Company.

### Days Sales Outstanding ("DSO")

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

| (in thousands of Canadian dollars, except DSO) | **2019** | 2018 |
|---|---|---|
| Revenue for the fourth quarter | **$ 334,107** | $ 354,148 |
| Average trade accounts receivable | **$ 228,461** | $ 221,911 |
| **DSO** | **62** | 56 |

### Days Payables Outstanding ("DPO")

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

| (in thousands of Canadian dollars, except DSO) | | **2019** | | 2018 |
|---|---|---|---|---|
| Cost of goods sold for the fourth quarter | **$** | **237,310** | $ | 254,360 |
| Average accounts payable and accrued liabilities | **$** | **199,355** | $ | 197,695 |
| **DPO** | | **76** | | 70 |

## 13.0 FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

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

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

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

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current as at December 31, 2019. Non-monetary assets, liabilities, equity, revenue and expenses (items that are not already expressed in terms of the monetary unit as at December 31, 2019) are restated by applying the index at the end of the current reporting period. The effect of inflation on the Argentine subsidiary's net monetary position is included in the consolidated statements of income as a net monetary loss.

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

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

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

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

## 14.0 FORWARD-LOOKING INFORMATION

This document includes certain statements that reflect management's expectations and objectives for the Company's future performance, opportunities and growth, which statements constitute "forward-looking information" and "forward-looking statements" (collectively "forward-looking information") under applicable securities laws. Such statements, other than statements of historical fact, are predictive in nature or depend on future events or conditions. Forward-looking information involves estimates, assumptions, judgements and uncertainties. These statements may be identified by the use of forward-looking terminology such as "may", "will", "should", "anticipate", "expect", "believe", "predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward-looking information in the Outlook Section and elsewhere in respect of, among other things, the achievement of key performance objectives, the potential for growth in capital expenditures in the offshore oil and gas sector, stable US land drilling and completion activity, the achievement of annualized run-rate cost synergies and revenue synergies arising from the acquisition by the Company of ZCL and the timing thereof, the execution of definitive contracts for and the timing to complete certain pipe coating projects, the likelihood that projects will be sanctioned in early 2020 and beyond, and the impact thereof on the Company's business, the level of financial performance in 2020, the effect of the Company's diversified portfolio of products on revenue and operating income, the demand for the Company's products in the Pipeline and Pipe Services, Composite Systems and the Automotive and Industrial segments of the Company's business, the sufficiency of resources, capacity and capital to meet market demand, to meet contractual obligations and to execute the Company's development and growth strategy, the sufficiency of the Company's processes and systems to operate its business and execute its strategic plan, the expected development of the Company's order backlog and the impact thereof on the Company's revenue and operating income, including the award of contracts on outstanding bids, the impact of global economic activity on the demand for the Company's products, the impact of continuing demand for oil and gas and prior years' absence of investments in larger projects on the level of industry investment in oil and gas infrastructure, the impact of global oil and gas commodity prices, the impact of changing energy demand, supply and prices and the impact and likelihood of changes in competitive conditions in the markets in which the Company participates, the adequacy of the Company's existing accruals in respect of environmental compliance and in respect of litigation and tax matters and other claims generally, and the level of payments under the Company's performance, bid and surety bonds.

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

These statements of forward-looking information are based on assumptions, estimates and analysis made by management in light of its experience and perception of trends, current conditions and expected developments as well as other factors believed to be reasonable and relevant in the circumstances. These assumptions include those in respect of global oil and gas prices, including increases in expenditures on natural gas infrastructures, increased capital expenditures in the global offshore oil and gas segment, modest global economic growth, limited growth in Western Canada and continued volatility in U.S. land markets, softening demand in the automotive market, solid demand in the retail fuel market and stable demand in the European and North American industrial markets, the Company's ability to execute projects under contract, the continued supply of and stable pricing for commodities used by the Company, increases in rail and transportation costs, the availability of personnel resources sufficient for the Company to operate its businesses, the maintenance of operations in major oil and gas producing regions, the continued successful integration of the business and operations of ZCL, and the ability of the Company to satisfy all covenants under the Credit Facility. The Company believes that the expectations reflected in the forward-looking information are based on reasonable assumptions in light of currently available information. However, should one or more risks materialize or should any assumptions prove incorrect, then actual results could vary materially from those expressed or implied in the forward-looking information included in this document and the Company can give no assurance that such expectations will be achieved.

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

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

## 15.0 ADDITIONAL INFORMATION

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

February 27, 2020

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

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

Stephen M. Orr
President and Chief Executive Officer

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

# INDEPENDENT AUDITOR'S REPORT



## TO THE SHAREHOLDERS OF SHAWCOR LTD.

### OPINION

We have audited the consolidated financial statements of Shawcor Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, the consolidated statements of (loss) income, consolidated statements of comprehensive (loss) income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

### BASIS FOR OPINION

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

### OTHER INFORMATION

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

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

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

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

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

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

### RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
27 February 2020

# CONSOLIDATED STATEMENTS OF (LOSS) INCOME

| For the years ended December 31:<br>(in thousands of Canadian dollars, except per share amounts) | 2019 | 2018 |
|---|---|---|
| **Revenue** | | |
| Sale of products | **$ 662,533** | $ 616,332 |
| Rendering of services | **826,956** | 792,540 |
| | **1,489,489** | 1,408,872 |
| **Cost of Goods Sold and Services Rendered** | **1,062,450** | 974,795 |
| **Gross Profit** | **427,039** | 434,077 |
| Selling, general and administrative expenses | **299,758** | 300,294 |
| Research and development expenses | **12,647** | 11,876 |
| Foreign exchange gains | **(4,572)** | (11,929) |
| Amortization of property, plant and equipment (note 22) | **55,204** | 64,789 |
| Amortization of intangible assets (note 24) | **26,159** | 18,434 |
| Amortization of right-of-use assets (note 23) | **19,495** | – |
| Gains on sale of land (note 11) | **(39,344)** | – |
| Impairment (note 28) | **104,103** | – |
| **(Loss) Income from Operations** | **(46,411)** | 50,613 |
| Income from investments in associates (note 26) | **14,459** | 282 |
| Finance costs, net (note 12) | **(21,175)** | (12,092) |
| Cost associated with repayment of long-term debt and credit facilities (note 32) | **(12,308)** | – |
| Net monetary loss (note 5) | **(3,997)** | (4,796) |
| **(Loss) Income before Income Taxes** | **(69,432)** | 34,007 |
| Income taxes (recovery) expense (note 13) | **(36,137)** | 7,828 |
| **Net (Loss) Income** | **$ (33,295)** | $ 26,179 |
| **Net (Loss) Income Attributable to:** | | |
| Shareholders of the Company | **$ (33,293)** | $ 25,876 |
| Non-controlling interests | **(2)** | 303 |
| **Net (Loss) Income** | **$ (33,295)** | $ 26,179 |
| **(Loss) Earnings per Share (note 14)** | | |
| Basic | **$ (0.47)** | $ 0.37 |
| Diluted | **$ (0.47)** | $ 0.37 |
| **Weighted Average Number of Shares Outstanding (000s) (note 14)** | | |
| Basic | **70,142** | 70,061 |
| Diluted | **70,142** | 70,264 |

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

| For the years ended December 31:<br>(in thousands of Canadian dollars) | | 2019 | | 2018 |
|---|---|---|---|---|
| **Net (Loss) Income** | **$** | **(33,295)** | $ | 26,179 |
| **Other Comprehensive (Loss) Income to be Reclassified to Net Income in Subsequent Periods** | | | | |
| Exchange differences on translation of foreign operations | | **(48,924)** | | 28,953 |
| Other comprehensive loss attributable to investments in associates | | **(107)** | | (251) |
| Cash flow hedge gains (note 32) | | **3,869** | | – |
| **Net Other Comprehensive (Loss) Income to be Reclassified to Net Income in Subsequent Periods** | | **(45,162)** | | 28,702 |
| **Other Comprehensive (Loss) Income not to be Reclassified to Net Income in Subsequent Periods** | | | | |
| Actuarial (loss) gain on defined benefit plans (note 17) | | **(419)** | | 1,762 |
| Income tax recovery (expense) (note 13) | | **124** | | (475) |
| **Net Other Comprehensive (Loss) Income not to be Reclassified to Net Income in Subsequent Periods** | | **(295)** | | 1,287 |
| **Other Comprehensive (Loss) Income, Net of Income Taxes** | | **(45,457)** | | 29,989 |
| **Total Comprehensive (Loss) Income** | **$** | **(78,752)** | $ | 56,168 |
| **Comprehensive (Loss) Income Attributable to:** | | | | |
| Shareholders of the Company | **$** | **(77,981)** | $ | 56,229 |
| Non-controlling interests | | **(771)** | | (61) |
| **Total Comprehensive (Loss) Income** | **$** | **(78,752)** | $ | 56,168 |

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

# CONSOLIDATED BALANCE SHEETS

| As at December 31:<br>(in thousands of Canadian dollars) | | 2019 | | 2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents (note 18) | **$** | **98,218** | $ | 217,264 |
| Short-term investments | | **–** | | 2,046 |
| Loans receivable (note 19) | | **712** | | 2,492 |
| Accounts receivable (note 20) | | **246,745** | | 241,497 |
| Contract assets | | **41,616** | | 31,404 |
| Income taxes receivable | | **33,493** | | 27,476 |
| Inventory (note 21) | | **160,792** | | 136,997 |
| Prepaid expenses | | **17,560** | | 22,116 |
| Derivative financial instruments (note 8) | | **177** | | 1,102 |
| **Total current assets** | | **599,313** | | 682,394 |
| **Non-current Assets** | | | | |
| Loans receivable (note 19) | | **–** | | 545 |
| Property, plant and equipment (notes 22 and 28) | | **420,027** | | 442,941 |
| Right-of-use assets (note 23) | | **84,269** | | – |
| Intangible assets (notes 24 and 28) | | **271,514** | | 155,454 |
| Investments in associates (note 26) | | **15,400** | | 30,219 |
| Deferred income tax assets (note 13) | | **37,462** | | 31,290 |
| Other assets (note 27) | | **5,396** | | 8,880 |
| Goodwill (notes 25 and 28) | | **377,704** | | 350,402 |
| **Total non-current assets** | | **1,211,772** | | 1,019,731 |
| **TOTAL ASSETS** | **$** | **1,811,085** | $ | 1,702,125 |
| **LIABILITIES AND EQUITY** | | | | |
| **Current Liabilities** | | | | |
| Accounts payable and accrued liabilities (note 29) | | **177,452** | | 206,860 |
| Provisions (note 30) | | **25,694** | | 23,924 |
| Income taxes payable | | **18,918** | | 26,139 |
| Derivative financial instruments (note 8) | | **330** | | 226 |
| Contract liabilities | | **43,693** | | 23,603 |
| Lease liabilities (note 23) | | **21,461** | | 1,155 |
| Other liabilities (note 31) | | **9,518** | | 7,339 |
| **Total current liabilities** | | **297,066** | | 289,246 |
| **Non-current Liabilities** | | | | |
| Long-term debt (note 32) | | **435,462** | | 267,781 |
| Lease liabilities (note 23) | | **67,768** | | 10,388 |
| Provisions (note 30) | | **20,477** | | 34,979 |
| Employee future benefits (note 17) | | **15,390** | | 15,190 |
| Deferred income tax liabilities (note 13) | | **19,306** | | 4,632 |
| Other liabilities (note 31) | | **5,669** | | 10,259 |
| **Total non-current liabilities** | | **564,072** | | 343,229 |
| **Total liabilities** | | **861,138** | | 632,475 |
| **Equity** | | | | |
| Share capital (note 34) | | **710,563** | | 708,833 |
| Contributed surplus | | **32,615** | | 30,187 |
| Retained earnings | | **193,027** | | 271,429 |
| Non-controlling interests | | **4,647** | | 5,418 |
| Accumulated other comprehensive income | | **9,095** | | 53,783 |
| **Total equity** | | **949,947** | | 1,069,650 |
| **TOTAL LIABILITIES AND EQUITY** | **$** | **1,811,085** | $ | 1,702,125 |

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

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| For the years ended December 31: (in thousands of Canadian dollars) | Share Capital | Contributed Surplus | Retained Earnings | Non-controlling Interests | Accumulated Other Comprehensive Income | Total Equity |
|---|---|---|---|---|---|---|
| **Balance – December 31, 2018** | $ 708,833 | $ 30,187 | $ 271,429 | $ 5,418 | $ 53,783 | $ 1,069,650 |
| Adjustment for IFRS 16, *Leases* (note 4) | – | – | (3,023) | – | – | (3,023) |
| **Adjusted balance – January 1, 2019** | $ 708,833 | $ 30,187 | $ 268,406 | $ 5,418 | $ 53,783 | $ 1,066,627 |
| Net loss | – | – | (33,293) | (2) | – | (33,295) |
| Other comprehensive loss | – | – | – | (769) | (44,688) | (45,457) |
| Comprehensive loss | – | – | (33,293) | (771) | (44,688) | (78,752) |
| Issued on exercise of stock options | 357 | – | – | – | – | 357 |
| Compensation cost on exercised stock options | 139 | (139) | – | – | – | – |
| Compensation cost on exercised restricted share units | 1,234 | (1,234) | – | – | – | – |
| Stock-based compensation expense | – | 3,801 | – | – | – | 3,801 |
| Dividends declared and paid to shareholders (note 34) | – | – | (42,086) | – | – | (42,086) |
| **Balance – December 31, 2019** | **$ 710,563** | **$ 32,615** | **$ 193,027** | **$ 4,647** | **$ 9,095** | **$ 949,947** |
| **Balance – December 31, 2017** | $ 704,956 | $ 27,651 | $ 302,206 | $ 5,848 | $ 4,123 | $ 1,044,784 |
| Hyperinflation adjustments for Argentina (note 5) | – | – | (14,624) | (369) | 19,307 | 4,314 |
| **Adjusted Balance – January 1, 2018** | $ 704,956 | $ 27,651 | $ 287,582 | $ 5,479 | $ 23,430 | $ 1,049,098 |
| Net income | – | – | 25,876 | 303 | – | 26,179 |
| Other comprehensive (loss) income | – | – | – | (364) | 30,353 | 29,989 |
| Comprehensive income (loss) | – | – | 25,876 | (61) | 30,353 | 56,168 |
| Issued on exercise of stock options | 1,897 | – | – | – | – | 1,897 |
| Compensation cost on exercised stock options | 735 | (735) | – | – | – | – |
| Compensation cost on exercised restricted share units | 1,245 | (1,245) | – | – | – | – |
| Stock-based compensation expense | – | 4,516 | – | – | – | 4,516 |
| Dividends declared and paid to shareholders (note 34) | – | – | (42,029) | – | – | (42,029) |
| **Balance – December 31, 2018** | $ 708,833 | $ 30,187 | $ 271,429 | $ 5,418 | $ 53,783 | $ 1,069,650 |

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| For the years ended December 31:<br>(in thousands of Canadian dollars) | 2019 | 2018 |
|---|---|---|
| **Operating Activities** | | |
| Net (loss) income for the year | **$ (33,295)** | $ 26,179 |
| Add (deduct) items not affecting cash | | |
| Amortization of property, plant and equipment (note 22) | **55,204** | 64,789 |
| Amortization of intangible assets (note 24) | **26,159** | 18,434 |
| Amortization of right-of-use assets (note 23) | **19,495** | – |
| Amortization of long-term prepaid expenses | **514** | 521 |
| Impact of inventory revaluation adjustment (note 6) | **7,000** | – |
| Impairment (note 28) | **104,103** | – |
| Interest expense on right-of-use asset leases | **3,566** | – |
| Decommissioning liabilities (recovery) expense (note 30) | **(3,680)** | 235 |
| Other provision expenses (note 30) | **5,678** | 3,635 |
| Share-based and other incentive-based compensation (note 16) | **3,442** | 8,926 |
| Deferred income taxes (note 13) | **(45,272)** | 1,574 |
| (Gain) loss on disposal of property, plant and equipment | **(181)** | 260 |
| Gains on sale of land | **(39,344)** | – |
| Unrealized loss (gain) on derivative financial instruments | **1,029** | (2,409) |
| Income from investments in associates (note 26) | **(14,459)** | (282) |
| Cost associated with repayment of long-term debt and credit facilities | **5,745** | – |
| Other | **–** | (4,112) |
| Settlement of decommissioning liabilities (note 30) | **(1,219)** | (435) |
| Settlement of other provisions (note 30) | **(14,112)** | (10,478) |
| Net change in employee future benefits (note 17) | **227** | (183) |
| Change in non-cash working capital and foreign exchange | **(26,437)** | (76,109) |
| **Cash Provided by Operating Activities** | **54,163** | 30,545 |
| **Investing Activities** | | |
| Decrease in loans receivable | **2,180** | 1,420 |
| Decrease (increase) in short-term investments | **2,046** | (2,046) |
| Purchases of property, plant and equipment | **(44,890)** | (76,201) |
| Proceeds on disposal of property, plant and equipment | **50,263** | 7,113 |
| Decrease (increase) in other assets | **426** | (3,617) |
| Proceeds from redemption of investment in associate (note 26) | **29,171** | – |
| Business acquisition, net of cash acquired (note 6) | **(291,477)** | – |
| **Cash Used in Investing Activities** | **(252,281)** | (73,331) |
| **Financing Activities** | | |
| Decrease in bank indebtedness | **(17,608)** | – |
| Increase in long-term debt (note 32) | **165,692** | – |
| Repayment of lease liabilities (note 23) | **(24,635)** | (880) |
| Issuance of shares (note 34) | **357** | 1,897 |
| Dividends paid to shareholders (note 34) | **(42,086)** | (42,029) |
| **Cash Provided by (Used in) Financing Activities** | **81,720** | (41,012) |
| **Effect of Foreign Exchange on Cash and Cash Equivalents and Net Monetary Loss** | **(2,648)** | 11,997 |
| **Net Decrease in Cash and Cash Equivalents for the Year** | **(119,046)** | (71,801) |
| **Cash and Cash Equivalents – Beginning of Year** | **217,264** | 289,065 |
| **Cash and Cash Equivalents – End of Year** | **$ 98,218** | $ 217,264 |
| **Supplemental Cash Flow Information** | | |
| Interest paid | **$ 19,713** | $ 10,506 |
| Interest received | **$ 1,441** | $ 2,029 |
| Income taxes paid | **$ 13,794** | $ 29,817 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Shawcor Ltd. is a publicly listed company incorporated in Canada with its shares listed on the Toronto Stock Exchange. Shawcor Ltd., together with its subsidiaries (collectively referred to as the "Company" or "Shawcor"), is a growth oriented, global energy services company serving the Pipeline and Pipe Services, Composite Systems and the Automotive and Industrial (formerly named Petrochemical and Industrial) segments of the energy industry. The Company operates eight divisions with over 87 manufacturing and service facilities located around the world. Further information as it pertains to the nature of operations is set out in note 9.

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

# 1 BASIS OF FINANCIAL STATEMENT PREPARATION

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

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as at December 31, 2019.

### BASIS OF PRESENTATION AND CONSOLIDATION

The consolidated financial statements have been prepared on the historical cost basis, except for certain current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in note 2.

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

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

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

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

The audited consolidated financial statements and accompanying notes for the year ended December 31, 2019 were authorized for issue by the Company's Board of Directors (the "Board") on February 27, 2020.

# 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with IFRS. The more significant accounting policies are as follows:

### A) CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

**Materiality**
Assessments about whether line items are sufficiently material to warrant separate presentation in the primary consolidated financial statements or in the consolidated financial statement notes.

**Determination of Reportable Operating Segments**
Management has exercised judgement in evaluating the defined aspects of its operating segments, aggregation criteria, and quantitative thresholds that form the reportable operating segments of the Company. Management has also exercised professional judgement in determining that the Company's Chief Executive Officer ("CEO") is the Company's Chief Operating Decision Maker ("CODM"). Operating segments are reported in a manner consistent with the internal reporting provided to the CODM. The CODM is responsible for allocating resources and assessing the performance of the operating segments.

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

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

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

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

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

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

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

### B) USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Critical estimates used in preparing the consolidated financial statements include:

**Long-lived Assets and Goodwill**
The Company evaluates the recoverable amounts of its CGUs with goodwill on an annual basis on October 31 of each year to determine whether or not impairment of these assets has occurred and whether write-downs of the value of these assets are required. Similarly, the Company evaluates the recoverable amounts of CGUs with long-lived assets whenever circumstances arise that could indicate impairment or reversal of impairment, at each reporting date. Further, the Company evaluates whether there are indicators of impairment or reversal of impairment for long-lived assets or groups of long-lived assets. If indicators are noted, the Company evaluates the recoverable amount of the asset or CGU to which the asset belongs, to determine if an impairment charge or reversal of impairment is warranted. These impairment tests include certain assumptions regarding discount rates and future cash flows generated by these assets in determining the value-in-use or fair value less costs of disposal calculations. Actual results could differ from these assumptions and estimates.

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

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

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

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

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

**Leases**
The incremental borrowing rate used to determine the present value of the Company's lease liabilities is a critical accounting estimate. The measurement of the Company's lease liabilities depends on the interest rate implicit in the lease used to discount the remaining lease payments. If the interest rate implicit in the lease cannot be readily determined, the lease payments are discounted using the Company's incremental borrowing rate.

### C) BUSINESS COMBINATIONS

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

For an acquisition achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

### D) FOREIGN CURRENCY TRANSLATION

#### Functional and Presentation Currency

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

#### Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of (loss) income, except when deferred in other comprehensive income ("OCI") as qualifying net investment hedges.

#### Translation of Foreign Operations

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

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

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

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

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

### E) FINANCIAL INSTRUMENTS

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

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

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

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

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

| Balance Sheet Item | Designation |
|---|---|
| Cash and cash equivalents | Measured at amortized cost |
| Short-term investments | Fair value through profit or loss |
| Accounts receivable | Measured at amortized cost |
| Contract assets | Measured at amortized cost |
| Loans receivable | Measured at amortized cost |
| Derivative financial instruments | Fair value through profit or loss |
| Accounts payable | Measured at amortized cost |
| Long-term debt | Measured at amortized cost |

**Derivative Financial Instruments**

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

**Fair Value**

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

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

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

**Derecognition**

Financial assets are derecognized when the contractual rights to the receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and rewards associated with the asset.

Financial liabilities are derecognized when the related obligations are either discharged, cancelled, or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets acquired or liabilities assumed, is recognized in the consolidated statements of income in the period in which it is incurred.

**Impairment**

Financial assets carried at amortized cost are assessed at each reporting date for any potential impairment. The Company uses the expected credit loss ("ECL") model for calculating impairment and recognizes expected credit losses as a loss allowance for assets measured at amortized cost. If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted using the original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment and the impairment loss is recognized in the consolidated statements of income.

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

**Transaction Costs**

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

### F) REVENUE RECOGNITION

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

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

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

**Sale of Goods**

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

**Rendering of Services**

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

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

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

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

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

### G) BORROWING COSTS

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

### H) EMPLOYEE FUTURE BENEFITS

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

The defined benefit obligation is determined by independent actuaries using the projected unit credit method pro-rated on service. The defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity matching the terms of the related defined benefit arrangements. Plan assets are valued at quoted market prices at the consolidated balance sheet dates.

Past service costs arising from plan amendments are fully recognized in income when the plan amendment or curtailment occurs, or when related restructuring costs or termination benefits are recognized, whichever comes first.

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

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

### I) SHARE-BASED AND OTHER INCENTIVE-BASED COMPENSATION

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

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

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

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

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

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

### J) RESEARCH AND DEVELOPMENT COSTS

In accordance with IAS 38, *Intangible Assets*, research and development costs are charged to the consolidated statements of income, except for development costs, which are capitalized as an intangible asset when the following criteria are met:

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

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

### K) INVESTMENTS IN JOINT VENTURES

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

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

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

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

The Company had the following investments in joint ventures:

| | Country of Incorporation | Activity | **December 31, 2019 Ownership Interest %** | December 31, 2018 Ownership Interest % |
|---|---|---|---|---|
| Hal Shaw Inc. | USA | Pipe coating | **50** | 50 |
| Shaw & Shaw Ltd. | Canada | Pipe coating | **83** | 83 |

As of December 31, 2019, both joint ventures are inactive and do not generate income or expense.

### L) INVESTMENTS IN ASSOCIATES

The Company accounts for investments in which it has significant influence using the equity method, and these investments are initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the income or loss of the investee, after the date of acquisition.

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

A listing of all associates is presented in note 26.

### M) INCOME TAXES

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

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

The Company accounts for income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income taxes are not accounted for if they arise from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

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

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

### N) EARNINGS PER SHARE (“EPS”)

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

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

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

### O) CASH AND CASH EQUIVALENTS

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

### P) SHORT-TERM INVESTMENTS

Short-term investments consist of liquid investments with maturity dates on acquisition greater than 90 days and less than one year.

### Q) TRADE AND OTHER RECEIVABLES

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

### R) INVENTORY

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

### S) PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

### T) INTANGIBLE ASSETS

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

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

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

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

### U) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

### V) GOODWILL

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

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

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

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

### W) PROVISIONS

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

## 3 ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

### DEFINITION OF A BUSINESS – AMENDMENTS TO IFRS 3

The IASB issued amendments to the definition of a business in IFRS 3, *Business Combinations* ("IFRS 3") to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed. The Company performed an impact assessment on these amendments and determined that there will be no material impact of adopting this standard on its consolidated financial statements.

## 4 NEW ACCOUNTING STANDARDS ADOPTED

### IFRS 16, *LEASES*

IFRS 16, *Leases* ("IFRS 16") issued by the IASB in January 2016, supersedes IAS 17, *Leases* ("IAS 17") (and related interpretations). The standard was effective for annual periods beginning on or after January 1, 2019. The new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the consolidated financial statements of both lessees and lessors. This standard eliminates the classification of leases as either an operating or finance lease for a lessee, and instead, all leases are capitalized by recognizing the present value of lease payments and presenting them as lease assets.

The Company used the following practical expedients and recognition exemptions when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- used the exemption to not recognize right-of-use ("ROU") assets and liabilities for leases with a remaining lease term of less than 12 months as at January 1, 2019;
- used the exemption to not recognize ROU assets and liabilities for leases with low value;
- excluded initial direct costs from measuring the ROU assets at the date of initial application;
- grandfathered the definition of a lease for existing contracts at the date of initial application;
- used hindsight in determining lease term at the date of initial application;
- applied a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application; and
- used a portfolio application for leases with similar characteristics, such as vehicle and equipment leases.

The Company applied the standard using the modified retrospective approach, which does not require a restatement of prior period financial information as it recognizes the cumulative effect of applying the standard to prior periods as an adjustment to opening retained earnings as at January 1, 2019.

The adoption of IFRS 16 resulted in the recognition of ROU assets, mainly related to land and buildings. The Company recorded ROU assets of $58.9 million, lease liabilities of $62.2 million and a reduction of shareholders' equity of $3.0 million, as at January 1, 2019.

The Company recognizes 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, 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 lease payments to be made over the lease term. The lease payments include fixed payments and variable lease payments that depend on an index or a rate less any lease incentives. 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.

The incremental borrowing rate used to determine the present value of the Company's lease liabilities is a critical accounting estimate. The measurement of the Company's lease liabilities depends on the interest rate implicit in the lease used to discount the remaining lease payments. If the interest rate implicit in the lease cannot be readily determined, the lease payments are discounted using the Company's incremental borrowing rate. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over a similar term and security, the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment. Significant assumptions are required to be made on the basis for which the rate was derived. These assumptions are considered to be a key source of estimation uncertainty. When measuring the lease liabilities, the Company discounted lease payments using the incremental borrowing rate at January 1, 2019 based on the geographical location of the leased assets. This resulted in the use of an incremental borrowing rate ranging from 2.3% up to 33.1% for the hyperinflationary environment of Argentina.

### *LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES* (AMENDMENTS TO IAS 28)

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

### IFRIC 23, *UNCERTAINTY OVER INCOME TAX TREATMENTS*

In June 2017, the IASB published IFRIC 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23"), effective for annual periods beginning on or after January 1, 2019. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgement in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The Company performed an impact assessment of all aspects of IFRIC 23 and determined that there was no material impact of adopting this standard on its consolidated financial statements.

## 5 FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

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

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

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

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current as at December 31, 2019. Non-monetary assets, liabilities, equity, revenue and expenses (items that are not already expressed in terms of the monetary unit as at December 31, 2019) are restated by applying the index at the end of the current reporting period. The effect of inflation on the Argentine subsidiary's net monetary position is included in the consolidated statements of income as a net monetary loss.

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

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

## 6 ACQUISITIONS

### ACQUISITION OF ZCL COMPOSITES INC.

On April 2, 2019, the Company completed the acquisition of ZCL Composites Inc. ("ZCL") for $10.00 per share in cash by way of a statutory plan of arrangement. The price per share implied an aggregate fully diluted equity value for ZCL of approximately $308 million excluding cash acquired of $16.7 million. ZCL is North America's largest manufacturer and supplier of fiberglass reinforced plastic underground storage tanks. ZCL has two plants in Canada, four in the US and one in the Netherlands serving the fuel, water and wastewater and oil and gas markets and had 2018 revenue of approximately $176 million.

The transaction has been accounted for as a business combination under the acquisition method of accounting. The following table shows the purchase price allocation for the acquisition of ZCL and the total consideration paid for the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date:

| (in thousands of Canadian dollars) | | |
|---|---|---|
| **Consideration transferred** | | |
| Cash (net of cash acquired of $16,651) | $ | 291,477 |
| **Net assets acquired at fair value** | | |
| Current assets (excluding cash acquired of $16,651) | $ | 74,842 |
| Property, plant and equipment | | 29,412 |
| ROU assets | | 16,095 |
| Intangible assets | | 192,583 |
| Current liabilities assumed | | (47,498) |
| Deferred income tax liabilities[(a)] | | (55,367) |
| Other non-current liabilities assumed | | (11,986) |
| **Total identifiable net assets at fair value** | **$** | **198,081** |
| Goodwill[(b)] | | 93,396 |
| | **$** | **291,477** |

(a) Deferred income tax liabilities have been recognized in connection with intangible assets, property, plant and equipment, ROU assets and inventory using the substantively enacted tax rates at which the temporary differences were expected to be realized as of the closing date of April 2, 2019.

(b) The balance of goodwill represents the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. None of the goodwill is expected to be deductible for tax purposes. The goodwill acquired represents the acquired human capital and the benefits the Company expects to earn from the acquisition due to expected synergies and other intangible assets that do not meet the criteria for separation as identifiable intangible assets.

The Company incurred $16.5 million in acquisition-related costs for transaction costs and financing fees, and costs related to integration initiatives such as separation benefits, retention payments and impact of inventory revaluation adjustment. The fair value of acquired identifiable intangible assets included customer relationships, brands, technology, permits and backlog. Management finalized the purchase price allocation of fair value of net assets acquired including intangible assets, goodwill and deferred taxes in the fourth quarter of 2019.

## 7 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, 2019** | December 31, 2018 |
|---|---|---|
| Long-term debt | **$ 435,462** | $ 267,781 |
| Lease obligations | **89,229** | 11,543 |
| Equity | **949,947** | 1,069,650 |
| | **$ 1,474,638** | $ 1,348,974 |

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions, the risk characteristics of the underlying assets and business investment opportunities. To maintain or adjust the capital structure, the Company may issue or re-acquire shares, acquire or dispose of assets, or adjust the amount of cash and cash equivalents, bank indebtedness or long-term debt balances. The Company's capital is not subject to any capital requirements imposed by any regulators; however, it is limited by the terms of its credit facility. Specifically, the Company has undertaken to maintain certain covenants in respect of its unsecured committed bank credit facility. The Company is in compliance with these covenants as at December 31, 2019. Please refer to note 32 for further information pertaining to the Company's debt covenant requirements.

## 8 FINANCIAL INSTRUMENTS

The Company has classified its financial instruments as follows:

| (in thousands of Canadian dollars) | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| **Loans and Receivables, Measured at Amortized Cost** | | |
| Cash and cash equivalents (note 18) | **$ 98,218** | $ 217,264 |
| Trade accounts receivable, net (note 20) | **218,509** | 210,009 |
| Loans receivable (note 19) | **712** | 3,037 |
| Deposit guarantee | **242** | 261 |
| **Fair Value through Profit or Loss** | | |
| Short-term investments | **–** | 2,046 |
| Derivative financial instruments – assets | **177** | 1,102 |
| Derivative financial instruments – liabilities | **330** | 226 |
| **Financial Liabilities, Measured at Amortized Cost** | | |
| Accounts payable (note 29) | **74,191** | 95,794 |
| Long-term debt (note 32) | **435,462** | – |
| Senior notes (note 32) | **–** | 267,781 |

### 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, 2019:

| (in thousands of Canadian dollars) | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 98,218 | $ 98,218 | $ – | $ – |
| Short-term investments | – | – | – | – |
| Loans receivable | 712 | – | 712 | – |
| Derivative financial instruments | 177 | – | 177 | – |
| Deposit guarantee | 242 | – | 242 | – |
| | $ 99,349 | $ 98,218 | $ 1,131 | $ – |
| **Liabilities** | | | | |
| Long-term debt (note 32) | 435,462 | – | 435,462 | – |
| Derivative financial instruments | 330 | – | 330 | – |
| | $ 435,792 | $ – | $ 435,792 | $ – |

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.

## FINANCIAL RISK MANAGEMENT

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

### Market Risk

*Foreign Exchange Risk*

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are denominated in foreign currencies. As a result, the Company's consolidated revenue, expenses and financial position may be impacted by fluctuations in foreign exchange rates as these foreign currency items are translated into Canadian dollars. As at December 31, 2019, fluctuations of +/- 5% in the Canadian dollar, relative to those foreign currencies, would impact the Company's consolidated revenue, income from operations, and net income (attributable to shareholders of the Company) for the year ended December 31, 2019 by approximately $57.9 million, ($4.8) million and ($6.6) 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 $60.1 million, $13.1 million and $47.0 million, respectively, as at December 31, 2019.

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

*Foreign Exchange Forward Contracts*

The Company utilizes financial instruments to manage the risk associated with foreign exchange rates. The Company formally documents all relationships between hedging instruments and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

The following table sets out the notional amounts outstanding under foreign exchange forward contracts, the average contractual exchange rates and the settlement of these contracts as at December 31, 2019:

| (in thousands, except weighted average rate amounts) | |
|---|---|
| US dollars sold for Euros | |
| Less than one year | US$ 19,519 |
| Weighted average rate | 0.89 |
| US dollars sold for British pounds | |
| Less than one year | US$ 3,233 |
| Weighted average rate | 0.77 |
| Euros sold for US dollars | |
| Less than one year | € 11,726 |
| Weighted average rate | 1.11 |
| Norwegian kroner sold for US dollars | |
| Less than one year | NOK 37,428 |
| Weighted average rate | 0.11 |
| Canadian dollars sold for British pounds | |
| Less than one year | CDN$ 7,775 |
| Weighted average rate | 0.58 |

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

As at December 31, 2019, the Company had notional amounts of $60.0 million of foreign exchange forward contracts outstanding (2018 – $60.3 million) with the fair value of the Company's net loss from all foreign exchange forward contracts totalling $0.2 million (2018 – $0.9 million net gain).

*Interest Rate Risk*

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2019:

| (in thousands of Canadian dollars) | Non-interest Bearing | Floating Rate | Fixed Interest Rate | Total |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Cash equivalents | $ – | $ – | $ 2,538 | $ 2,538 |
| Loans receivable | – | 712 | – | 712 |
| | $ – | $ 712 | $ 2,538 | $ 3,250 |
| **Financial Liabilities** | | | | |
| Standard letters of credit for performance, bid and surety bonds | $ 36,940 | $ – | $ – | $ 36,940 |
| Long-term debt | – | 435,462 | – | 435,462 |
| | $ 36,940 | $ 435,462 | $ – | $ 472,402 |

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

### Credit Risk

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

For the year ended December 31, 2019, there was no customer who generated more than 10% of total consolidated revenue (2018 – there was no customer who generated more than 10% of total consolidated revenue). As at December 31, 2019, no customer accounted for more than 10% of the Company's total trade accounts receivable (2018 – no customer accounted for more than 10% of the Company's total 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 income with a charge to selling, general and administrative expenses ("SG&A"). 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 SG&A.

As at December 31, 2019, $15.0 million, or 7%, of trade accounts receivable was more than 90 days overdue, compared to $13.3 million, or 6%, as at December 31, 2018. The Company expects to receive full payment on accounts receivable that are neither past due nor impaired.

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

| (in thousands of Canadian dollars) | **2019** | 2018 |
|---|---|---|
| **Balance – Beginning of Year** | **$ (4,771)** | $ (2,809) |
| ECL expense | **(608)** | (2,402) |
| Recovery of amounts previously provided for | **1,448** | 401 |
| ECL written off | **205** | 178 |
| Impact of change in foreign exchange rates | **(143)** | (139) |
| **Balance – End of Year** | **$ (3,869)** | $ (4,771) |

### 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, 2019, the Company had cash and cash equivalents totalling $98.2 million (2018 – $217.3 million) and had unutilized lines of credit available to use of $275.6 million (2018 – $456.6 million).

The following are the contractual maturities of the Company's purchase commitments and financial liabilities as at December 31, 2019:

| | 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| (in thousands of Canadian dollars) | $ | $ | $ | $ | $ | $ | $ |
| Purchase commitments | 103,464 | – | – | – | – | – | 103,464 |
| Accounts payable | 74,191 | – | – | – | – | – | 74,191 |
| Long-term debt | – | – | – | 435,462 | – | – | 435,462 |
| Obligations under leases[(a)] | 24,600 | 19,363 | 15,710 | 12,684 | 7,040 | 17,677 | 97,074 |
| Common area maintenance obligations under leases | 2,030 | 1,784 | 1,485 | 1,018 | 628 | 3,572 | 10,517 |
| Low value/short-term leases[(a)] | 1,863 | 1,236 | 1,241 | 1,352 | 1,349 | 4,317 | 11,358 |
| **Total** | **206,148** | **22,383** | **18,436** | **450,516** | **9,017** | **25,566** | **732,066** |

(a) See IFRS 16, *Leases* in *Section 4 – New Accounting Standards Adopted*.

## 9. 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.

During the fourth quarter of 2019, the Company amended its segment reporting to provide greater granularity in the performance of its diversified portfolio. In addition to two previously reported segments, Pipeline and Pipe Services and Automotive and Industrial (formerly Petrochemical and Industrial), the Company created a new reportable segment called Composite Systems. Inter-segment transactions among Pipeline and Pipe Services, Composite Systems and Automotive and Industrial are accounted for at negotiated transfer prices. The aggregation of the reportable segments is based on the customers and markets that the Company services.

### PIPELINE AND PIPE SERVICES

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

- Pipeline Performance Group (formerly Bredero Shaw) product offerings include specialized internal anti-corrosion and flow efficiency pipe coating systems, insulation coating systems, weight coating systems and custom coating and field joint application services for onshore and offshore pipelines;
- Pipeline Performance Products (formerly Pipeline and Pipe Services Products) includes Canusa-CPS, that manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications and Dhatec, that designs and assembles engineered pipe logistics products and services;
- Shaw Pipeline Services 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; and
- Lake Superior Consulting provides pipeline engineering and integrity management services to major North American pipeline operators.

### COMPOSITE SYSTEMS

The Composite Systems reportable segment comprises the following divisions:

- Composite Production Systems (formerly Flexpipe Systems) manufacturers spoolable and stick composite pipe systems and high density polyethylene pipe used for oil and gas gathering, water disposal, carbon dioxide injection pipelines and other applications requiring corrosion resistance and high pressure capabilities. Since the acquisition of ZCL Composites in 2019, this operating unit also manufacturers reinforced plastic underground storage tanks for the retail fuel, water and wastewater and oil and gas markets; and
- Oilfield Asset Management (formerly Guardian) provides a complete range of tubular management services including inventory management systems, mobile inspection, in-plant inspection and the refurbishment and rethreading of drill pipe, production tubing and casing.

### AUTOMOTIVE AND INDUSTRIAL (FORMERLY PETROCHEMICAL AND INDUSTRIAL)

The Automotive and Industrial segment, which consists of the Connection Systems operating unit. Operations within this segment utilize polymer and adhesive technologies that were developed for the Pipeline and Pipe Services segment and are now being applied to applications in Automotive and Industrial markets.

- Connection Systems is a global manufacturer of heat-shrinkable products including thin, medium and heavy-walled tubing, sleeves and molded products as well as heat-shrink accessories and equipment; and
- Connection Systems also manufactures wire and cable for control, instrumentation, thermocouple, power, marine and robotics applications.

### FINANCIAL AND CORPORATE

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

**SEGMENT**

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

| (in thousands of Canadian dollars) | | | | | | 2019 |
|---|---|---|---|---|---|---|
| | Pipeline and Pipe Services | Composite Systems | Automotive and Industrial | Financial and Corporate | Eliminations and Adjustments | Total |
| | $ | $ | $ | $ | $ | $ |
| Revenue | | | | | | |
| External | 863,110 | 416,908 | 209,471 | – | – | 1,489,489 |
| Inter-Segment | 738 | 421 | 1,632 | – | (2,791) | – |
| **Total Revenue** | 863,848 | 417,329 | 211,103 | – | (2,791) | 1,489,489 |
| Operating expense | 843,950 | 332,185 | 172,343 | 11,949 | (2,791) | 1,357,636 |
| Research and development expenses | 4,013 | 6,115 | 1,064 | 1,455 | – | 12,647 |
| Amortization of property, plant and equipment | 37,794 | 11,866 | 3,583 | 1,961 | – | 55,204 |
| Amortization of intangible assets | 13,957 | 12,202 | – | – | – | 26,159 |
| Amortization of right-of-use assets | 12,318 | 6,146 | 898 | 133 | – | 19,495 |
| Gains on sale of land | (32,551) | (6,793) | – | – | – | (39,344) |
| **(Loss) Income from Operations for CODM** | (15,633) | 55,608 | 33,215 | (15,498) | – | 57,692 |
| Impairment | 104,103 | – | – | – | – | 104,103 |
| **(Loss) Income from Operations** | (119,736) | 55,608 | 33,215 | (15,498) | – | (46,411) |
| Additions to property, plant and equipment, net of disposals | 22,371 | 11,155 | 3,991 | 592 | – | 38,109 |
| Goodwill | 218,115 | 142,371 | 17,218 | – | – | 377,704 |
| Total assets | 858,283 | 665,859 | 128,138 | 207,705 | (48,900) | 1,811,085 |
| Total liabilities | 277,043 | 155,735 | 27,057 | 395,433 | 5,870 | 861,138 |

| (in thousands of Canadian dollars) | | | | | | 2018[(a)] |
|---|---|---|---|---|---|---|
| | Pipeline and Pipe Services | Composite Systems | Automotive and Industrial | Financial and Corporate | Eliminations and Adjustments | Total |
| | $ | $ | $ | $ | $ | $ |
| Revenue | | | | | | |
| External | 860,373 | 347,442 | 201,057 | – | – | 1,408,872 |
| Inter-Segment | 916 | 316 | 1,197 | – | (2,429) | – |
| **Total Revenue** | 861,289 | 347,758 | 202,254 | – | (2,429) | 1,408,872 |
| Operating expense | 823,142 | 269,351 | 164,677 | 8,419 | (2,429) | 1,263,160 |
| Research and development expenses | 4,032 | 5,680 | 1,255 | 909 | – | 11,876 |
| Amortization of property, plant and equipment | 48,290 | 10,989 | 3,664 | 1,846 | – | 64,789 |
| Amortization of intangible assets | 13,946 | 4,488 | – | – | – | 18,434 |
| **(Loss) Income from Operations for CODM** | (28,121) | 57,250 | 32,658 | (11,174) | – | 50,613 |
| Impairment | – | – | – | – | – | – |
| **(Loss) Income from Operations** | (28,121) | 57,250 | 32,658 | (11,174) | – | 50,613 |
| Additions to property, plant and equipment, net of disposals | 46,682 | 14,371 | 6,177 | 1,598 | – | 68,828 |
| Goodwill | 282,237 | 49,730 | 18,435 | – | – | 350,402 |
| Total assets | 987,766 | 282,423 | 140,866 | 341,328 | (50,258) | 1,702,125 |
| Total liabilities | 255,277 | 66,012 | 28,559 | 279,495 | 3,132 | 632,475 |

(a) Restated to conform with current period presentation.

### 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) | Canada | USA | Latin America | EMAR[(a)] | Asia Pacific | Eliminations | 2019 Total |
|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | |
| External | $ 373,666 | $ 642,716 | $ 119,219 | $ 310,850 | $ 43,038 | $ – | $ 1,489,489 |
| Inter-segment | 2,541 | 250 | – | – | – | (2,791) | – |
| Total revenue | $ 376,207 | $ 642,966 | $ 119,219 | $ 310,850 | $ 43,038 | $ (2,791) | $ 1,489,489 |
| Non-current assets[(b)] | $ 429,491 | $ 524,140 | $ 42,815 | $ 121,987 | $ 38,127 | $ – | $ 1,156,560 |

| (in thousands of Canadian dollars) | Canada | USA | Latin America | EMAR[(a)] | Asia Pacific | Eliminations | 2018 Total |
|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | |
| External | $ 405,398 | $ 530,507 | $ 118,102 | $ 257,310 | $ 97,555 | $ – | $ 1,408,872 |
| Inter-segment | 2,429 | – | – | – | – | (2,429) | – |
| Total revenue | $ 407,827 | $ 530,507 | $ 118,102 | $ 257,310 | $ 97,555 | $ (2,429) | $ 1,408,872 |
| Non-current assets[(b)] | $ 251,103 | $ 500,234 | $ 35,305 | $ 119,891 | $ 48,346 | $ – | $ 954,879 |

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

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

## 10 EMPLOYEE BENEFITS EXPENSE

The following table sets forth the Company's employee benefits expense for the years ended December 31:

| (in thousands of Canadian dollars) | 2019 | 2018 |
|---|---|---|
| Salaries, wages and employee benefits | $ 583,496 | $ 522,017 |
| Pension (note 17) | 14,537 | 15,330 |
| Share-based and other incentive-based compensation (note 16) | 3,125 | 9,751 |
| **Total** | $ 601,158 | $ 547,098 |

## 11 GAINS ON SALE OF LAND

The Company completed a review of its pipe coating footprint in Western Canada during the second quarter of 2019. As a result of this review, the Company sold one of its small diameter pipe coating facilities in Edmonton for proceeds of $40 million in the second quarter of 2019. These funds will allow the Company to relocate and consolidate its capabilities into another owned property in Western Canada. As part of this sale transaction, the Company has entered into a two-year lease to facilitate an orderly windup and move of its operations. In accordance with IFRS 16, the Company recognized a gain of $32.6 million and a $5.0 million lease liability for future lease payments in the second quarter of 2019. In the third and fourth quarter of 2019, the Company sold another two facilities in Edmonton and recorded gains of $5.4 million and $1.3 million, respectively.

## 12 FINANCE COSTS

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

| (in thousands of Canadian dollars) | 2019 | 2018 |
|---|---|---|
| Interest income | $ (1,786) | $ (2,990) |
| Interest expense on long-term debt | 16,543 | 9,096 |
| Interest expense, other | 2,852 | 5,986 |
| Interest expense on ROU assets | 3,566 | – |
| **Finance Costs, Net** | $ 21,175 | $ 12,092 |

## 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) | 2019 | 2018 |
|---|---|---|
| **Current Income Taxes** | | |
| Based on taxable income of current year | **$ 9,020** | $ 7,522 |
| Adjustment to prior year provision | **115** | (1,268) |
| | **9,135** | 6,254 |
| **Deferred Income Taxes** | | |
| Reversal of temporary differences | **(45,272)** | 1,574 |
| | **(45,272)** | 1,574 |
| **Total Income Tax (Recovery) Expense** | **$ (36,137)** | $ 7,828 |

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) | 2019 | 2018 |
|---|---|---|
| Income tax expense on actuarial gains and losses on defined benefit plans | **$ (124)** | $ 475 |
| **Income Tax (Recovery) Expense Charged to OCI** | **$ (124)** | $ 475 |

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

| | 2019 | 2018[a] |
|---|---|---|
| | % | % |
| Expected income tax expense based on statutory rate | **26.6** | 26.9 |
| Tax rate differential on earnings of foreign subsidiaries | **(9.8)** | 0.9 |
| Benefit of previously unrecognized tax losses | **24.2** | (33.3) |
| Deferred tax not recognized | **(13.5)** | 33.1 |
| Adjustment to prior-year provision | **0.2** | (4.0) |
| Non-deductible amounts | **14.9** | 8.1 |
| Withholding taxes | **(1.7)** | 4.9 |
| Argentina hyperinflation adjustment | **(1.1)** | 6.8 |
| Movement in uncertain tax positions | **4.2** | (24.6) |
| State tax and other | **8.0** | 4.2 |
| **Effective Income Tax Rate** | **52.0** | 23.0 |

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

### RECOGNIZED DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

| (in thousands of Canadian dollars) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Deferred Income Tax Assets** | | |
| Property, plant and equipment | **$ 1,791** | $ 606 |
| Provisions and future expenditures | **49,321** | 19,145 |
| Non-capital losses | **43,391** | 28,568 |
| Capital losses | **929** | 976 |
| | **95,432** | 49,295 |
| **Deferred Income Tax Liabilities** | | |
| Property, plant and equipment | **(22,906)** | (15,362) |
| Provisions and future expenditures | **(54,370)** | (7,275) |
| | **(77,276)** | (22,637) |
| **Net Deferred Income Tax Asset** | **$ 18,156** | $ 26,658 |

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, 2019 | December 31, 2018 |
|---|---|---|
| Deferred income tax assets | **$ 37,462** | $ 31,290 |
| Deferred income tax liabilities | **(19,306)** | (4,632) |
| | **$ 18,156** | $ 26,658 |

The Company has recorded deferred income tax assets of $43.4 million as at December 31, 2019 (2018 – $28.6 million), pertaining to loss carry forwards based on management's financial projections and the relevant income tax legislation in each jurisdiction.

| | Consolidated Statements of (Loss) Income | |
|---|---|---|
| (in thousands of Canadian dollars) | 2019 | 2018 |
| **Deferred Income Tax Assets** | | |
| Property, plant and equipment | **$ (1,185)** | $ 3,722 |
| Provisions and future expenditures | **(30,176)** | 6,118 |
| Non-capital losses | **(14,823)** | (1,073) |
| Capital losses | **47** | (79) |
| Change in deferred income tax assets | **(46,137)** | 8,688 |
| **Deferred Income Tax Liabilities** | | |
| Property, plant and equipment | **7,544** | (4,648) |
| Provisions and future expenditures | **47,095** | (3,168) |
| Change in deferred income tax liabilities | **54,639** | (7,816) |
| **Change in Deferred Income Taxes** | **8,502** | 872 |
| Deferred income taxes in OCI | **124** | (475) |
| Acquisition and purchase price accounting | **(54,570)** | – |
| Foreign exchange and other | **672** | 1,177 |
| **Deferred Income Tax (Recovery) Expense in Net Income** | **$ (45,272)** | $ 1,574 |

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, 2019 and 2018, 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 $111.3 million and $105.6 million for the years ended December 31, 2019 and 2018, respectively.

The Company has net operating losses of $309.1 million for the year ended December 31, 2019 (2018 – losses of $326.7 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 $68.0 million and $52.4 million for the years ended December 31, 2019 and 2018, respectively, in various jurisdictions for which no deferred income tax asset has been recognized. These capital losses can be carried forward indefinitely.

## 14 (LOSS) EARNINGS PER SHARE

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

| (in thousands of Canadian dollars, except share and per share amounts) | 2019[(a)] | 2018 |
|---|---|---|
| Net (loss) income used to calculate EPS | | |
| Net income (attributable to the shareholders of the Company) | **$ (33,293)** | $ 25,876 |
| Weighted average number of shares outstanding – basic (000s) | **70,142** | 70,061 |
| Dilutive effect of stock options | **–** | 203 |
| Weighted average number of shares outstanding – diluted (000s) | **70,142** | 70,264 |
| Basic EPS | **$ (0.47)** | $ 0.37 |
| Diluted EPS | **$ (0.47)** | $ 0.37 |

(a) All potentially dilutive instruments are anti-dilutive in 2019 and therefore are not included in the calculation of EPS.

## 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) | | 2019 | | 2018 |
|---|---|---|---|---|
| Salaries and other short-term incentive compensation and employee benefits | **$** | **1,787** | $ | 1,867 |
| Post-employment benefits – defined benefit plans | | **352** | | 455 |
| Share-based and other long-term incentive payments | | **3,397** | | 4,958 |
| Directors' fees and other compensation | | **841** | | (329) |
| **Total** | **$** | **6,377** | $ | 6,951 |

## 16 SHARE-BASED AND OTHER INCENTIVE-BASED COMPENSATION

As at December 31, 2019, 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 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 TANDEM SHARE APPRECIATION RIGHTS

| | | | 2019 | | | 2018 |
|---|---|---|---|---|---|---|
| | Total Shares | | Weighted Average Exercise Price | Total Shares | | Weighted Average Exercise Price |
| **Balance Outstanding – Beginning of Year** | **1,264,385** | **$** | **33.58** | 1,195,385 | $ | 33.06 |
| Granted | **224,400** | | **21.05** | 248,900 | | 25.22 |
| Exercised | **(23,080)** | | **15.51** | (122,280) | | 15.51 |
| Cancelled/Forfeited | **(528,595)** | | **36.39** | – | | – |
| Expired | **–** | | **–** | (57,620) | | 25.17 |
| **Balance Outstanding – End of Year** | **937,110** | **$** | **29.44** | 1,264,385 | $ | 33.58 |
| **Options Exercisable** | **352,570** | **$** | **35.03** | 752,245 | $ | 36.22 |

**December 31, 2019**

| | | Options Outstanding | | | | | Options Exercisable |
|---|---|---|---|---|---|---|---|
| Range of Exercise Prices | Outstanding as at December 31, 2019 | Weighted Average Remaining Contractual Life (years) | | Weighted Average Exercise Price | Exercisable as at December 31, 2019 | | Weighted Average Exercise Price |
| $21.05 to $25.00 | **224,400** | **9.00** | **$** | **21.05** | **–** | **$** | **–** |
| $25.01 to $30.00 | **345,900** | **7.44** | | **25.58** | **107,060** | | **25.91** |
| $30.01 to $35.00 | **54,300** | **5.32** | | **32.30** | **36,300** | | **32.35** |
| $35.01 to $40.00 | **192,210** | **6.65** | | **37.18** | **88,910** | | **37.02** |
| $40.01 to $45.00 | **110,000** | **3.00** | | **42.19** | **110,000** | | **42.19** |
| $45.01 to $50.00 | **10,300** | **4.00** | | **45.73** | **10,300** | | **45.73** |
| | **937,110** | **6.97** | **$** | **29.44** | **352,570** | **$** | **35.03** |

December 31, 2018

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

The Board approved the granting of 224,400 stock options (2018 – 248,900) during the year ended December 31, 2019 under the Amended 2001 Employee Plan. The total fair value of the stock options granted during the year ended December 31, 2019 was $1.0 million (2018 – $1.3 million) and was calculated using the Black-Scholes option pricing model with the following assumptions:

| | | **2019** | | 2018 |
|---|---|---|---|---|
| Weighted average share price | **$** | **21.05** | $ | 25.22 |
| Exercise price | **$** | **21.05** | $ | 25.22 |
| Weighted average expected life of options | | **6.25** | | 6.25 |
| Weighted average expected stock price volatility | | **26.5%** | | 27.0% |
| Weighted average expected dividend yield | | **2.73%** | | 2.41% |
| Weighted average risk-free interest rate | | **1.70%** | | 2.04% |

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, 2019, included in selling, general and administrative expenses, was $1.2 million (2018 – $1.2 million).

## STOCK OPTIONS WITH TANDEM SHARE APPRECIATION RIGHTS

| | **2019 Total Shares** | | **2019 Weighted Average Fair Value(a)** | 2018 Total Shares | | 2018 Weighted Average Fair Value |
|---|---|---|---|---|---|---|
| **Balance Outstanding – Beginning of Year** | **426,000** | **$** | **8.79** | 407,100 | $ | 10.05 |
| Granted | **91,700** | | **4.61** | 127,800 | | 4.68 |
| Exercised | **–** | | **–** | – | | – |
| Cancelled/forfeited | **(83,500)** | | **10.30** | (108,900) | | 8.67 |
| **Balance Outstanding – End of Year** | **434,200** | **$** | **7.62** | 426,000 | $ | 8.79 |
| **Options Exercisable** | **190,020** | **$** | **9.43** | 210,380 | $ | 10.42 |

(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, 2019 is $0.1 million (2018 – $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 deferred share unit ("DSU") plan for directors of the Company. Additional details with respect to the LTIP and DSU plan are as follows:

### LTIP

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

*VGP*

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

The VGP liability as at December 31, 2019 is $8.6 million (2018 – $10.3 million).

*ESUP*

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

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

| | | 2019 | | 2018 |
|---|---|---|---|---|
| | Total Shares | Weighted Average Grant Date Fair Value[(a)(b)] | Total Shares | Weighted Average Grant Date Fair Value[(a)] |
| **Balance Outstanding – Beginning of Year** | **611,840** | **$ 31.02** | 598,037 | $ 32.02 |
| Granted | **106,199** | **19.38** | 71,247 | 22.52 |
| Exercised | **(38,854)** | **29.41** | (38,419) | 30.90 |
| Forfeited /cancelled | **(14,236)** | **26.87** | (19,025) | 30.95 |
| **Balance Outstanding – End of Year** | **664,949** | **$ 29.34** | 611,840 | $ 31.02 |
| **RSUs/PSUs Exercisable** | **378,600** | **$ 32.88** | 308,170 | $ 33.21 |

(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, 2019 is $0.5 million (December 31, 2018 – $0.6 million).

**DSUs**

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

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

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

| | | 2019 | | 2018 |
|---|---|---|---|---|
| | Total Shares | Weighted Average Grant Date Fair Value[(a)] | Total Shares | Weighted Average Grant Date Fair Value [(a)] |
| **Balance Outstanding – Beginning of Year** | **218,498** | **$ 31.89** | 191,046 | $ 33.86 |
| Granted | **95,918** | **16.21** | 58,928 | 21.90 |
| Exercised | **–** | **–** | (31,476) | 25.11 |
| **Balance Outstanding – End of Year** | **314,416** | **$ 27.10** | 218,498 | $ 31.89 |

(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, 2019 is $3.9 million (2018 – $3.6 million), all of which is included in current and non-current other liabilities on the consolidated balance sheets.

### INCENTIVE-BASED COMPENSATION

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

| (in thousands of Canadian dollars) | 2019 | 2018 |
|---|---|---|
| Stock option expense | $ 1,178 | $ 1,212 |
| VGP (recovery) expense | (612) | 6,431 |
| DSU expense (recovery) | 317 | (826) |
| RSU expense | 2,623 | 3,304 |
| SAR recovery | (82) | (1,388) |
| PIP expense | 18 | 193 |
| **Total Share-based and Other Incentive-based Compensation Expense** | $ 3,442 | $ 8,926 |

## 17 EMPLOYEE FUTURE BENEFITS

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

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

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

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

The total cash payments made by the Company to fund the defined benefit pension plans, the post-retirement insurance plans and the post-employment benefit plan during 2019 were $2.8 million (2018 – $4.8 million). The total cash payments made by the Company to fund the defined contribution pension arrangements during 2019 were $10.9 million (2018 – $10.4 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, 2019 (one plan), December 31, 2018 (one plan), December 31, 2017 (one plan), January 1, 2017 (two plans), December 31, 2016 (one plan) and August 1, 2016 (one plan).

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

| (in thousands of Canadian dollars) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Accrued Employee Future Benefit Asset** | | |
| Pension plans (note 27) | $ 2,350 | $ 2,798 |
| | $ 2,350 | $ 2,798 |
| **Accrued Employee Future Benefit Liability** | | |
| Pension plans | $ (12,521) | $ (12,598) |
| Post-employment benefits | (2,740) | (2,474) |
| Post-retirement life insurance | (129) | (118) |
| | $ (15,390) | $ (15,190) |

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

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| **Investments Quoted in Active Markets** | | |
| Cash and cash equivalents | **6%** | 5% |
| Equity instruments | **63%** | 61% |
| Debt instruments | **31%** | 34% |
| | **100%** | 100% |

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

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| **Investments Quoted in Active Markets** | | |
| Equity instruments[(a)] | **100%** | 100% |

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

### ACTUAL RETURN ON PLAN ASSETS

The actual return on plan assets for the years ended December 31, 2019 and 2018 amounted to $15.8 million and ($2.1) million, respectively.

### EMPLOYEE FUTURE BENEFIT COST

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

| (in thousands of Canadian dollars) | | **December 31, 2019** | | December 31, 2018 |
|---|---|---|---|---|
| Current service costs | **$** | **2,606** | $ | 2,692 |
| Past service costs and impact of settlements, curtailments and termination benefits | | **1** | | 1,128 |
| Interest cost on defined benefit obligation | | **4,506** | | 4,206 |
| Interest income on plan assets | | **(4,118)** | | (3,816) |
| | | **2,995** | | 4,210 |
| Impact of asset ceiling/minimum funding requirement | | **66** | | 56 |
| Defined benefit cost recognized | | **3,061** | | 4,266 |
| Defined contribution cost recognized | | **11,476** | | 11,064 |
| **Employee Future Benefit Cost Recognized[(a)]** | **$** | **14,537** | $ | 15,330 |

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

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

| (in thousands of Canadian dollars) | | **December 31, 2019** | | December 31, 2018 |
|---|---|---|---|---|
| Valuation effect | **$** | **(92)** | $ | 447 |
| Return on plan assets (excluding amounts included in interest income) | | **(11,730)** | | 5,902 |
| Net actuarial losses (gains) recognized in the year | | **12,309** | | (8,082) |
| Other changes in asset ceiling/minimum funding requirement not included in net interest cost | | **42** | | (66) |
| Foreign exchange differences | | **(110)** | | 37 |
| **Employee Future Benefit Income Recognized in OCI** | **$** | **419** | $ | (1,762) |

Changes in the defined benefit obligation are as follows:

| (in thousands of Canadian dollars) | | **December 31, 2019** | | December 31, 2018 |
|---|---|---|---|---|
| **Balance – Beginning of Year** | **$** | **131,508** | $ | 139,334 |
| Valuation effect | | **(682)** | | – |
| Employer current service cost | | **2,606** | | 2,692 |
| Net interest cost | | **4,506** | | 4,206 |
| Past service costs and impact of settlements, curtailments and termination benefits | | **1** | | 1,128 |
| Benefit payments | | **(5,629)** | | (8,259) |
| Actuarial gains due to changes in demographic assumptions | | **(438)** | | (184) |
| Actuarial losses (gains) due to changes in economic assumptions | | **13,058** | | (7,297) |
| Experience gains | | **(311)** | | (601) |
| Foreign exchange differences | | **(510)** | | 489 |
| **Balance – End of Year** | **$** | **144,109** | $ | 131,508 |

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

| (in thousands of Canadian dollars) | 2019 | 2018 |
|---|---|---|
| **Balance – Beginning of Year** | **$ 121,266** | $ 126,804 |
| Valuation effect | **(590)** | (447) |
| Employer contributions | **2,833** | 4,831 |
| Benefit payments | **(5,629)** | (8,259) |
| Interest income on plan assets | **4,118** | 3,816 |
| Return on plan assets (excluding amounts included in interest income) | **11,730** | (5,902) |
| Foreign exchange differences | **(420)** | 423 |
| **Balance – End of Year** | **$ 133,308** | $ 121,266 |

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

| | 2019 | 2018 |
|---|---|---|
| Canada | | |
| Defined benefit obligation | | |
| Discount rate | **3.09%** | 3.85% |
| Future salary increase | **3.95%** | 3.00% |
| Future pension increase | **n/a** | n/a |
| Mortality | **CPM 2014 Private with scale CPM-B** | CPM 2014 Private with scale CPM-B |
| Benefit cost for the year ended December 31 | | |
| Discount rate | **3.85%** | 3.38% |
| Future salary increase | **3.00%** | 3.00% |
| Norway | | |
| Defined benefit obligation | | |
| Discount rate | **2.20%** | 2.60% |
| Future salary increase | **2.25%** | 2.75% |
| Future pension increase | **0.50%** | 0.80% |
| Mortality | **K2013** | K2013 |
| Benefit cost for the year ended December 31 | | |
| Discount rate | **2.60%** | 2.40% |
| Future salary increase | **2.75%** | 2.50% |
| United Kingdom | | |
| Defined benefit obligation | | |
| Discount rate | **2.00%** | 2.80% |
| Future salary increase | **n/a** | n/a |
| Future pension increase | **2.20%** | 2.50% |
| Mortality | **S2PA (projected)** | S2PA (projected) |
| Benefit cost for the year ended December 31 | | |
| Discount rate | **2.80%** | 2.40% |
| Future salary increase | **n/a** | n/a |
| Indonesia | | |
| Defined benefit obligation | | |
| Discount rate | **7.50%** | 8.20% |
| Future salary increase | **8.1% (local), 5.5% (expat)** | 8.1% (local), 5.5% (expat) |
| Future pension increase | **n/a** | n/a |
| Mortality | **Indonesia's Table 2011** | Indonesia's Table 2011 |
| Benefit cost for the year ended December 31 | | |
| Discount rate | **8.20%** | 7.20% |
| Future salary increase | **8.10% (local), 5.50% (expat)** | 7.00% (local), 4.50% (expat) |

#### SENSITIVITY ANALYSIS

A quantitative sensitivity analysis for significant assumptions as at December 31, 2019 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 | 10,032 | 7.0% |
| Increase of 50 basis points | (9,070) | (6.3%) |
| Future salary increase | | |
| Decrease of 50 basis points | (1,560) | (1.1%) |
| Increase of 50 basis points | 1,653 | 1.1% |
| Mortality Assumption – Impact of Life Expectancy being one year longer | 4,327 | 3.0% |

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, 2019.

#### OTHER INFORMATION

The Company expects to contribute $3.1 million to its defined benefit plans for the year ending December 31, 2020.

The average duration of the defined benefit plans as at December 31, 2019 is 13 years.

## 18 CASH AND CASH EQUIVALENTS

The following table sets forth the Company's cash and cash equivalents as at:

| (in thousands of Canadian dollars) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Cash | $ 95,680 | $ 169,704 |
| Cash equivalents | 2,538 | 47,560 |
| **Total** | $ 98,218 | $ 217,264 |

## 19 LOANS RECEIVABLE

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

| (in thousands of Canadian dollars) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Current** | | |
| Notes receivable | $ 712 | $ 2,492 |
| **Non-current** | | |
| Notes receivable[(a)] | $ – | $ 545 |
| **Total** | $ 712 | $ 3,037 |

(a) Non-current notes receivable relate to a portion of an amount advanced by the Company to an external party to support the construction of port facilities at a Bredero Shaw plant location in Kabil, Indonesia. Interest is payable semi-annually at US prime plus 0.25%, with principal repayments to be made in four semi-annual installments beginning on March 31, 2018, as set out in the loan agreement terms. A portion of this amount has been classified as current as semi-annual installments are due during 2019. As at December 31, 2019, the total amount of the notes receivable was US$0.6 million (December 31, 2018 – US$2.2 million).

## 20 ACCOUNTS RECEIVABLE

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

| (in thousands of Canadian dollars) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Trade accounts receivable | $ 222,378 | $ 214,780 |
| ECL accounts (note 8) | (3,869) | (4,771) |
| Other receivables | 28,236 | 31,488 |
| | $ 246,745 | $ 241,497 |

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

| (in thousands of Canadian dollars) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Current | **$ 123,102** | $ 124,661 |
| Past due 1 to 30 days | **51,143** | 57,614 |
| Past due 31 to 60 days | **24,115** | 15,187 |
| Past due 61 to 90 days | **9,014** | 4,008 |
| Past due for more than 90 days | **15,004** | 13,310 |
| Total trade accounts receivable | **222,378** | 214,780 |
| Less: ECL accounts | **(3,869)** | (4,771) |
| **Trade Accounts Receivable, Net** | **$ 218,509** | $ 210,009 |

## 21 INVENTORY

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

| (in thousands of Canadian dollars) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Raw materials and supplies | **$ 86,821** | $ 87,987 |
| Work-in-progress | **13,724** | 10,039 |
| Finished goods | **75,564** | 61,312 |
| Inventory obsolescence | **(15,317)** | (22,341) |
| | **$ 160,792** | $ 136,997 |

During 2019, the Company recorded a decrease of $7.0 million (2018 – increase of $0.3 million) in the provision for inventory obsolescence, due to recovery and disposal.

## 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, 2017 | $ 83,272 | $ 235,619 | $ 826,817 | $ 24,763 | $ 1,170,471 |
| Exchange differences | 2,264 | 3,571 | 35,233 | 1,969 | 43,037 |
| Additions | 473 | 1,686 | 53,281 | 21,932 | 77,372 |
| Disposals | (2,259) | (30,480) | (30,696) | (71) | (63,506) |
| Argentina hyperinflation adjustment | 22 | 2,794 | 7,056 | – | 9,872 |
| Balance – December 31, 2018 | $ 83,772 | $ 213,190 | $ 891,691 | $ 48,593 | $ 1,237,246 |
| Exchange differences | (1,720) | (8,975) | (32,825) | 265 | (43,255) |
| Additions | (1,630) | 12,909 | 50,371 | (16,916) | 44,734 |
| Acquisitions | 7,758 | 6,440 | 14,303 | 911 | 29,412 |
| Reclass to ROU assets leases | (1,750) | (4,083) | (5,252) | – | (11,085) |
| Disposals | (8,629) | (6,249) | (14,237) | (433) | (29,548) |
| Argentina hyperinflation adjustment | 8 | 1,088 | 2,407 | 8 | 3,511 |
| **Balance – December 31, 2019** | **$ 77,809** | **$ 214,320** | **$ 906,458** | **$ 32,428** | **$ 1,231,015** |

| (in thousands of Canadian dollars) | | Land and Land Improvements | | Buildings | | Machinery and Equipment | | Capital Projects-in-progress | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Accumulated Amortization** | | | | | | | | | | |
| Balance – December 31, 2017 | $ | (22,298) | $ | (117,606) | $ | (535,159) | $ | – | $ | (675,063) |
| Exchange differences | | (722) | | (474) | | (27,825) | | – | | (29,021) |
| Amortization | | (2,193) | | (13,253) | | (49,343) | | – | | (64,789) |
| Disposals | | 2,259 | | 30,019 | | 23,855 | | – | | 56,133 |
| Argentina hyperinflation adjustment | | (2) | | (966) | | (1,421) | | – | | (2,389) |
| Balance – December 31, 2018 | $ | (22,956) | $ | (102,280) | $ | (589,893) | $ | – | $ | (715,129) |
| Exchange differences | | 80 | | 1,867 | | 21,169 | | – | | 23,116 |
| Amortization | | 1,111 | | (8,738) | | (47,577) | | – | | (55,204) |
| Reclass to ROU assets leases | | – | | 600 | | 2,500 | | – | | 3,100 |
| Disposals | | 5,516 | | 4,827 | | 12,461 | | – | | 22,804 |
| **Balance – December 31, 2019** | **$** | **(16,249)** | **$** | **(103,724)** | **$** | **(601,340)** | **$** | **–** | **$** | **(721,313)** |

| (in thousands of Canadian dollars) | | Land and Land Improvements | | Buildings | | Machinery and Equipment | | Capital Projects-in-progress | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Accumulated Impairment** | | | | | | | | | | |
| Balance – December 31, 2017 | $ | (2,784) | | (23,730) | | (51,113) | $ | – | $ | (77,627) |
| Exchange differences | | 21 | | (570) | | (1,000) | | – | | (1,549) |
| Balance – December 31, 2018 | | (2,763) | $ | (24,300) | | (52,113) | $ | – | $ | (79,176) |
| Exchange differences | | 22 | | 985 | | 1,678 | | – | | 2,685 |
| Impairment | | – | | – | | (13,184) | | – | | (13,184) |
| **Balance – December 31, 2019** | **$** | **(2,741)** | **$** | **(23,315)** | | **(63,619)** | **$** | **–** | **$** | **(89,675)** |
| **Net book value** | | | | | | | | | | |
| As at December 31, 2018 | $ | 58,053 | $ | 86,610 | $ | 249,685 | $ | 48,593 | $ | 442,941 |
| **As at December 31, 2019** | **$** | **58,819** | **$** | **87,281** | **$** | **241,499** | **$** | **32,428** | **$** | **420,027** |

## 23 LEASES

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

| | | ROU assets | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in thousands of Canadian dollars) | | Real Estate Property | | Vehicles | | Equipment | | Total | | Lease liabilities |
| As at January 1, 2019 | $ | 56,976 | $ | $ 816 | $ | $ 1,136 | $ | $ 58,928 | $ | $ 62,212 |
| Finance lease reclassified to ROU assets on January 1, 2019 | | 5,234 | | – | | 2,752 | | 7,986 | | 7,710 |
| Addition | | 21,816 | | 720 | | 1,290 | | 23,826 | | 29,043 |
| Acquisition | | 15,245 | | 35 | | 816 | | 16,096 | | 13,596 |
| ROU interest expense | | – | | – | | – | | – | | 3,566 |
| Amortization expense | | (17,872) | | (461) | | (1,162) | | (19,495) | | – |
| Disposal | | (192) | | – | | – | | (192) | | (104) |
| Payments | | – | | – | | – | | – | | (24,739) |
| Foreign exchange difference | | (2,828) | | (45) | | (7) | | (2,880) | | (2,055) |
| **As at December 31, 2019** | **$** | **78,379** | **$** | **$ 1,065** | **$** | **$ 4,825** | **$** | **$ 84,269** | **$** | **$ 89,229** |

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

| (in thousands of Canadian dollars) | | 2019 |
|---|---|---|
| Amortization expense – ROU assets | $ | 19,495 |
| Interest expense on lease liabilities | | 3,566 |
| Rent expense – short-term and low value leases | | 10,901 |
| Rent expense – variable lease payments | | 2,544 |
| **Total** | **$** | **36,506** |

## 24 INTANGIBLE ASSETS

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

| (in thousands of Canadian dollars) | Intellectual Property, with Limited Life[(a)] | Intangible Assets, with Limited Life[(b)] | Intangible Assets, with Indefinite Life[(c)] | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance – December 31, 2017 | $ 84,318 | $ 268,307 | $ 2,275 | $ 354,900 |
| Exchange differences | (6,763) | 11,852 | – | 5,089 |
| Argentina hyperinflation adjustment | 5,939 | 2,668 | – | 8,607 |
| Balance – December 31, 2018 | $ 83,494 | $ 282,827 | $ 2,275 | $ 368,596 |
| Exchange differences | (3,398) | (16,098) | (2,118) | (21,614) |
| Acquisition | 63,000 | 35,583 | 94,000 | 192,583 |
| Argentina hyperinflation adjustment | 861 | 935 | – | 1,796 |
| **Balance – December 31, 2019** | **$ 143,957** | **$ 303,247** | **$ 94,157** | **$ 541,361** |
| **Accumulated Amortization** | | | | |
| Balance – December 31, 2017 | $ (44,522) | $ (72,771) | $ – | $ (117,293) |
| Exchange differences | 2,765 | (394) | – | 2,371 |
| Amortization | (5,058) | (13,376) | – | (18,434) |
| Argentina hyperinflation adjustment | (2,703) | (641) | – | (3,344) |
| Balance – December 31, 2018 | $ (49,518) | $ (87,182) | $ – | $ (136,700) |
| Exchange differences | 1,231 | 5,581 | – | 6,812 |
| Amortization | (9,213) | (16,946) | – | (26,159) |
| **Balance – December 31, 2019** | **$ (57,500)** | **$ (98,547)** | **$ –** | **$ (156,047)** |
| **Accumulated Impairment** | | | | |
| Balance – December 31, 2017 | $ (10,520) | $ (61,540) | $ (675) | $ (72,735) |
| Exchange differences | 38 | (3,745) | – | (3,707) |
| Balance – December 31, 2018 | $ (10,482) | $ (65,285) | $ (675) | $ (76,442) |
| Exchange differences | 588 | 3,910 | – | 4,498 |
| Impairment (note 28) | – | (41,856) | – | (41,856) |
| **Balance – December 31, 2019** | **$ (9,894)** | **$ (103,231)** | **$ (675)** | **$ (113,800)** |
| **Net book value** | | | | |
| As at December 31, 2018 | $ 23,494 | $ 130,360 | $ 1,600 | $ 155,454 |
| **As at December 31, 2019** | **$ 76,563** | **$ 101,469** | **$ 93,482** | **$ 271,514** |

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

(b) Intangible assets, with limited life, represent customer relationships, trademarks and non-compete agreements acquired directly or in conjunction with past business combinations. The Company amortizes the cost of intangible assets with limited life over their estimated useful lives, which ranges from 2 to 5 years for trademarks and non-compete agreements, and 10 years to 15 years for customer relationships. This estimate is based on expected customer attrition rates and considers the cyclicality of the global energy market (or the oil & gas market). The net book value of customer relationships as at December 31, 2019 is $100.5 million (2018 – $128.8 million), and is included in intangible assets, with limited life, in the table above.

(c) Intangible assets, with indefinite life, represent the value of brands obtained in previous acquisitions. As the Company has the exclusive right to use and benefit from the brands of the acquired companies for an undefined period, certain acquired brands have been classified as intangible assets with indefinite life. As the cost of intangible assets, with indefinite life, is not amortized, the Company assesses these intangible assets for impairment on an annual basis or when there is an indicator of impairment (please refer to note 28).

## 25 GOODWILL

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

| (in thousands of Canadian dollars) | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Gross amount of goodwill | **$ 516,240** | $ 483,548 |
| Accumulated impairment of goodwill | **(165,838)** | (154,157) |
| **Net Balance – Beginning of Year** | **350,402** | 329,391 |
| Foreign exchange | **(18,381)** | 17,241 |
| Acquisition | **93,396** | – |
| Impairment | **(49,063)** | – |
| Argentina hyperinflation adjustment | **1,350** | 3,770 |
| **Net Balance – End of Year** | **$ 377,704** | $ 350,402 |

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

| (in thousands of Canadian dollars) | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Bredero Shaw | **$ 192,964** | $ 203,981 |
| Shawcor Inspection Services | **–** | 50,943 |
| Flexpipe Systems | **49,730** | 49,730 |
| ZCL Composites Inc | **92,641** | – |
| Socotherm Americas (Argentina) | **3,607** | 4,522 |
| Pipeline and Pipe Services Products | **8,001** | 8,566 |
| DSG-Canusa GmbH | **17,218** | 18,435 |
| Lake Superior | **13,543** | 14,225 |
| | **$ 377,704** | $ 350,402 |

### IMPAIRMENT TESTING FOR EACH CASH-GENERATING UNIT CONTAINING GOODWILL

The Company performs a goodwill impairment test for each specified group of CGUs ("GCGUs") that contains goodwill at the Company's annual goodwill impairment testing date of October 31 ("Annual Goodwill Valuation Date"), or when indicators of impairment exist at its GCGUs. At the Annual Goodwill Valuation Date of October 31, 2019, the Company concluded there was no impairment of goodwill in any of its GCGUs, as the recoverable amount for these GCGUs was higher than their respective carrying amounts, other than the goodwill at its Shawcor Inspection Services Cash-Generating Unit ("DCGU"). The impairment of the DCGU goodwill is further discussed in note 28.

### RECOVERABLE AMOUNT

The Company determines the recoverable amount for its GCGUs as the higher of Value in Use and the Fair Value Less Cost to Dispose ("FVLCD"). In respect of the goodwill impairment tests in 2019, the FVLCD of each of the GCGUs was higher than the respective carrying amount and as such no goodwill impairments have been recorded in 2019. The FVLCD measurement was categorized as a Level 3 fair value based on the inputs in the valuation method used.

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

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

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

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

### PROJECTED CASH FLOWS

The Projected Cash Flows for each GCGU are derived from the most recently completed three-year Business Plan, which is projected out for a further time period of two years based on management's best estimates. Projected Cash Flow is estimated by adjusting forecasted annual net income (for the forecast period) for non-cash items (such as amortization, accretion, and foreign exchange), investments in working capital and investments in property, plant and equipment. Estimating future income requires judgement, consideration of past and actual performance, as well as expected developments in the GCGU's respective markets and in the overall macroeconomic environment.

### MARKET ASSUMPTIONS

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

### DISCOUNT RATE

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

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

| (in thousands of Canadian dollars) | October 31, 2019 | October 31, 2018 |
|---|---|---|
| Bredero Shaw | **11%** | 11% |
| Shawcor Inspection Services | **14.5%** | 12% |
| Flexpipe Systems | **12%** | 12% |
| ZCL Composites Inc | **10%** | – |
| Socotherm Americas (Argentina) | **18%** | 18% |
| DSG-Canusa GmbH | **12%** | 12% |
| Pipeline and Pipe Services Products | **14%** | 14% |
| Lake Superior | **12%** | 12% |

### TERMINAL VALUE GROWTH RATE

The Terminal Value Growth Rate is used to calculate the Terminal Value of the GCGUs at the end of the Projected Free Cash Flow. A Terminal Value Growth Rate of 2% –3% was used (for all goodwill impairment tests) reflecting terminal growth rate expectation of long-term growth in energy infrastructure investment; this figure also reflects the Company's best estimate of the economic conditions that are expected to exist over the forecast period.

### SENSITIVITY TO CHANGES IN ASSUMPTIONS

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

## 26 INVESTMENTS IN ASSOCIATES

On February 20, 2014, Shawcor completed an equity investment in Zedi Inc. ("Zedi"), a Calgary, Alberta-based company engaged in end-to-end solutions for production operations management in the oil and gas industry. Zedi has developed and deployed remote field monitoring and related data management solutions for the optimization of oil and gas well production. Shawcor's equity investment in Zedi consists of an approximately 43% common share interest as at December 31, 2019 (2018 – 47%), which is being accounted for using equity accounting. On March 26, 2018, the Company exercised its right to convert the preferred shares held in Zedi Inc. to 11.2 million common shares with a fair value of $10 million, which are also being accounted for using equity accounting.

During the second and fourth quarters of 2019, Zedi sold several parts of its operations. In the second quarter of 2019, the Company received $29.2 million of proceeds pertaining to the partial redemption of the investment in Zedi and recorded a gain of $9.7 million. In the fourth quarter of 2019, the Company recorded a further gain of $5.1 million, pertaining to the additional sale of the parts of operations of Zedi and revision to estimates relating to the outcome of the above sales.

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

## 27 OTHER ASSETS

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

| (in thousands of Canadian dollars) | | December 31, 2019 | | December 31, 2018 |
|---|---|---|---|---|
| Long-term prepaid expenses | **$** | **3,046** | $ | 6,082 |
| Accrued employee future benefit asset (note 17) | | **2,350** | | 2,798 |
| | **$** | **5,396** | $ | 8,880 |

## 28 IMPAIRMENT

The following table sets forth the Company's impairment charges for the year ended December 31, 2019:

| (in thousands of Canadian dollars) | | Shawcor Inspection Services[(a)] | | Other[(b)] | | Total |
|---|---|---|---|---|---|---|
| Impairment of property, plant and equipment | **$** | **–** | **$** | **13,184** | **$** | **13,184** |
| Impairment of intangible assets | | **41,856** | | **–** | | **41,856** |
| Impairment of goodwill | | **49,063** | | **–** | | **49,063** |
| **Total Impairment** | **$** | **90,919** | **$** | **13,184** | **$** | **104,103** |

(a) Formerly known as "Desert NDT".

(b) These amounts include impairment charges mainly pertaining to the machinery and equipment of two Bredero Shaw business units, both of which are in the Pipeline and Pipe Services segment.

**2019**

*Impairment Testing for the Shawcor Inspection Services Cash-Generating Unit*

The Company's policies regarding calculation of the recoverable amount for its GCGUs is described in note 25, as part of the discussion pertaining to impairment testing for goodwill.

The Company performed an impairment test for its DCGU as at October 31, 2019. This impairment was assessed due to the current decline in drilling and completion activity and lower forecasted future operator spending in US shale plays and the associated demand for inspection services used in building new oil and gas gathering line pipelines. The Company has adjusted its Business Plan to reflect reduced activity levels, thereby impacting the future cash flows for its DCGU.

For the DCGU impairment test, the FVLCD was higher than its value-in-use ("VIU"). The carrying value of the DCGU goodwill was $49.1 million. As a result of the assessed impairment, the carrying value of goodwill was reduced to nil as at October 31, 2019. A discount rate of 14.5% was applied to the DCGU impairment test as at October 31, 2019, along with a terminal value growth rate of 2.0%.

*Impairment Testing for Bredero Shaw Pearland Plant*

The Company recorded a $5.0 million impairment charge on building, machinery and equipment at the Pearland plant for the year ended December 31, 2019. The Company performed an asset impairment test for its Pearland plant as at December 31, 2019. This impairment was assessed due to the current decline in drilling and completion activity and lower forecasted future operator spending in US shale plays and the associated demand for pipe coating used in building new oil and gas gathering line pipelines. The Company adjusted its Business Plan to reflect these uncertainties, thereby impacting the estimate of future cash flows for the plant.

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

*Impairment of Bredero Shaw Kuantan Plant*

The Company recorded an $8.2 million impairment charge on property, plant and equipment at the Kuantan plant for the year ended December 31, 2019. The Company performed an impairment test for its Kuantan Plant as of October 31, 2019. Bredero Shaw's facility located in Kuantan, Malaysia is a full service, high capacity coating facility. Due to the company's total capacity to serve the region is greater than the future sustained forecasted activity and visible timing, the carrying amount of the property, plant and equipment was deemed to be partially impaired.

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

**2018**

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

## 29 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, 2019** | December 31, 2018 |
|---|---|---|
| Accounts payable | **$ 74,191** | $ 95,794 |
| Accrued liabilities | **103,261** | 111,066 |
| | **$ 177,452** | $ 206,860 |

## 30 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, 2017** | $ 29,186 | $ 5,974 | $ 28,756 | $ 63,916 |
| Provision adjustments | 867 | 3,217 | 416 | 4,500 |
| Settlement of liabilities | (435) | (1,851) | (8,627) | (10,913) |
| Accretion expense | 538 | – | – | 538 |
| Foreign exchange differences | 587 | 53 | 222 | 862 |
| **Balance – December 31, 2018** | **$ 30,743** | **$ 7,393** | **$ 20,767** | **$ 58,903** |
| Provision adjustments | (6,725) | 8,125 | (244) | 1,156 |
| Settlement of liabilities | (1,219) | (4,227) | (9,885) | (15,331) |
| Acquisition | – | 1,399 | 2,094 | 3,493 |
| Accretion expense | 402 | – | – | 402 |
| Foreign exchange differences | (629) | (186) | (1,637) | (2,452) |
| **Balance – December 31, 2019** | $ 22,572 | $ 12,504 | $ 11,095 | $ 46,171 |
| | | | | |
| **December 31, 2018** | | | | |
| Current | $ 6,189 | $ 7,393 | $ 10,342 | $ 23,924 |
| Non-current | 24,554 | – | 10,425 | 34,979 |
| | $ 30,743 | $ 7,393 | $ 20,767 | $ 58,903 |
| | | | | |
| **December 31, 2019** | | | | |
| Current | **$ 6,294** | **$ 12,504** | **$ 6,896** | **$ 25,694** |
| Non-current | **16,278** | **–** | **4,199** | **20,477** |
| | **$ 22,572** | **$ 12,504** | **$ 11,095** | **$ 46,171** |

### DECOMMISSIONING LIABILITIES

The total undiscounted cash flows estimated to settle all decommissioning liabilities were $28.5 million as at December 31, 2019. The current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0% and 13%. Settlement for all decommissioning liabilities is expected to be funded by future cash flows from the Company's operations.

The Company expects the following cash outflows over the next five years and thereafter for remediating its decommissioning liability obligations:

| (in thousands of Canadian dollars) | |
|---|---|
| 2020 | **$ 6,293** |
| 2021 | **4,104** |
| 2022 | **615** |
| 2023 | **703** |
| 2024 | **1,697** |
| Thereafter | **15,122** |
| | **$ 28,534** |

### WARRANTIES

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

### OTHER PROVISIONS

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

## 31 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, 2017** | $ | 11,158 | $ | 4,355 | $ | 15,513 |
| Adjustments | | 4,517 | | (1,584) | | 2,933 |
| Settlement of liabilities | | (1,309) | | – | | (1,309) |
| Foreign exchange differences | | 205 | | 256 | | 461 |
| **Balance – December 31, 2018** | $ | 14,571 | $ | 3,027 | $ | 17,598 |
| Adjustments | | (165) | | (799) | | (964) |
| Settlement of liabilities | | (1,212) | | – | | (1,212) |
| Foreign exchange differences | | (112) | | (123) | | (235) |
| **Balance – December 31, 2019** | **$** | **13,082** | **$** | **2,105** | **$** | **15,187** |
| | | | | | | |
| **December 31, 2018** | | | | | | |
| Current | $ | 5,128 | $ | 2,211 | $ | 7,339 |
| Non-current | | 9,443 | | 816 | | 10,259 |
| | $ | 14,571 | $ | 3,027 | $ | 17,598 |
| | | | | | | |
| **December 31, 2019** | | | | | | |
| Current | **$** | **7,413** | **$** | **2,105** | **$** | **9,518** |
| Non-current | | **5,669** | | **–** | | **5,669** |
| | **$** | **13,082** | **$** | **2,105** | **$** | **15,187** |

## 32 LONG-TERM DEBT AND SENIOR NOTES

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

| (in thousands of Canadian dollars) | | **December 31, 2019** | | December 31, 2018 |
|---|---|---|---|---|
| Long-term debt | **$** | **435,462** | $ | – |
| Senior notes | | **–** | | 267,781 |
| **Total long-term debt** | **$** | **435,462** | $ | 267,781 |

### CREDIT FACILITIES

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

| (in thousands of Canadian dollars) | | **December 31, 2019** | | December 31, 2018 |
|---|---|---|---|---|
| Borrowings on credit facility | **$** | **438,000** | $ | – |
| Deferred transaction costs | | **(2,538)** | | – |
| Total long-term debt | **$** | **435,462** | $ | – |
| Standard letters of credit for financial guarantees, performance and bid bonds | | **36,940** | | 43,879 |
| Total utilized credit facilities | **$** | **472,402** | $ | 43,879 |
| Total available credit facilities[a] | | **747,976** | | 500,498 |
| **Unutilized Credit Facilities** | **$** | **275,574** | $ | 456,619 |

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

On March 13, 2019, the Company renewed its Unsecured Committed Bank Credit Facility ("Credit Facility") for a period of four years, with the maximum borrowing limit of US$500 million, an increase of US$183 million over the previous Credit Facility's borrowing limit. The increase in the Credit Facility was intended, in part, to fund the acquisition of ZCL. The Company pays a floating interest rate on this Credit Facility that is a function of the Company's Net Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), and before foreign exchange gains or losses and non-recurring and one-time items. The Company is required to maintain an Interest Coverage Ratio of not less than 3.00:1.00 and a Net Leverage Ratio of not greater than 3.50:1.00. For calculating the Net Leverage Ratio, Net Debt excludes the first $100 million of performance and bid bond letters of credit and all standard letters of credit that are guaranteed by Export Development Canada ("EDC").

The Company wrote off the remaining deferred financing costs of $0.8 million pertaining to its previous Credit Facility in the first quarter of 2019.

The Company was in compliance with financial covenants as at December 31, 2019 and December 31, 2018.

### SENIOR NOTES

The total long-term debt balance as at December 31, 2018 was $267.8 million (US$196.8 million). The long-term debt was designated as a hedge of the Company's net investment in its US dollar functional currency subsidiary in 2018.

On March 7, 2019, the Company used a combination of cash and bank debt to repay the entire principal amount outstanding and accrued interest of $266.5 million (US$199.8 million) and a make-whole amount of $7.0 million (US$5.2 million). In addition, the Company wrote off $0.7 million of the remaining deferred financing costs and $3.9 million of cash flow hedge losses previously recorded in other comprehensive income in the first quarter of 2019.

## 33 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 $36.9 million as at December 31, 2019 (2018 – $43.9 million) for support of its bonds. In addition, as at December 31, 2019, the Company had $50.8 million of outstanding surety bonds through insurance companies (2018 – $66.3 million).

## 34 SHARE CAPITAL

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

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

| (all dollar amounts in thousands of Canadian dollars) | **2019** |
|---|---|
| **Number of shares** | |
| Balance – December 31, 2018 | **70,101,289** |
| Issued on exercise of stock options | **23,080** |
| Issued on exercise of RSUs | **38,854** |
| **Balance – December 31, 2019** | **70,163,223** |
| **Stated value** | |
| Balance – December 31, 2018 | **$ 708,833** |
| Issued on exercise of stock options | **357** |
| Compensation cost on exercised options | **139** |
| Compensation cost on exercised RSUs | **1,234** |
| **Balance – December 31, 2019** | **$ 710,563** |

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

Dividends declared and paid were as follows:

| (in thousands of Canadian dollars, except per share amounts) | **2019** | 2018 |
|---|---|---|
| Dividends declared and paid to shareholders | **$ 42,086** | $ 42,029 |
| Dividends declared and paid per share | **$ 0.600** | $ 0.600 |

## 35 CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from consolidated financial statements previously presented to conform to the presentation of the 2019 consolidated financial statements in accordance with IFRS.

## 36 SUBSEQUENT EVENT

### AMENDMENTS TO THE CREDIT FACILITY

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

# SIX-YEAR REVIEW AND QUARTERLY INFORMATION

## SIX-YEAR REVIEW (UNAUDITED)

| For the year ended December 31<br>(in thousands of Canadian dollars except per share information) | **2019** | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| | | (note 6) | (note 5) | | | |
| **OPERATING RESULTS** | | | | | | |
| Revenue | **1,489,489** | 1,408,872 | 1,565,499 | 1,209,259 | 1,810,648 | 1,890,029 |
| Adjusted EBITDA (note 1) | **136,401** | 134,870 | 225,929 | 56,452 | 228,478 | 336,701 |
| Net (Loss) Income (note 2) | **(33,293)** | 25,876 | 71,155 | (180,960) | 98,244 | 94,861 |
| **CASH FLOW** | | | | | | |
| Cash from operating activities | **54,163** | 30,545 | 178,446 | 131,893 | 281,041 | 187,985 |
| Purchase of property, plant, and equipment | **44,890** | 76,201 | 41,068 | 89,252 | 61,153 | 77,645 |
| **FINANCIAL POSITION** | | | | | | |
| Working capital (note 3) | **302,247** | 393,148 | 377,919 | 279,986 | 446,405 | 378,733 |
| Long-term debt | **435,462** | 267,781 | 246,175 | 263,528 | 485,147 | 406,926 |
| Equity | **949,947** | 1,069,650 | 1,044,784 | 1,043,040 | 1,125,201 | 980,613 |
| Total assets | **1,811,085** | 1,702,125 | 1,698,001 | 1,777,791 | 2,145,705 | 1,939,970 |
| **PER SHARE INFORMATION** | | | | | | |
| Net (loss) income | | | | | | |
| Basic | **(0.47)** | 0.37 | 1.02 | (2.80) | 1.52 | 1.55 |
| Diluted | **(0.47)** | 0.37 | 1.02 | (2.80) | 1.52 | 1.53 |
| Dividends | | | | | | |
| Common share | **0.60** | 0.60 | 0.60 | 0.60 | 0.60 | 0.575 |
| Equity per share (note 4) | **13.54** | 15.26 | 14.94 | 14.92 | 17.44 | 15.20 |

## QUARTERLY INFORMATION (UNAUDITED)

| (in thousands of Canadian dollars except per share information) | | | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|---|---|
| Revenue | | **2019** | **349,578** | **411,789** | **394,015** | **334,107** | **1,489,489** |
| | (note 6) | 2018 | 350,767 | 353,368 | 350,589 | 354,148 | 1,408,872 |
| Net (Loss) Income | (note 2) | **2019** | **(9,074)** | **51,044** | **6,520** | **(81,783)** | **(33,293)** |
| | (note 2 & 6) | 2018 | 3,829 | 7,308 | 10,373 | 4,366 | 25,876 |
| (Loss) Earnings per share (Diluted) | | **2019** | **(0.13)** | **0.73** | **0.09** | **(1.17)** | **(0.47)** |
| | (note 6) | 2018 | 0.05 | 0.10 | 0.15 | 0.06 | 0.37 |

Note 1: Adjusted EBITDA is a non-GAAP measure and does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies. See Section-12.0 – *Reconciliation of Non-GAAP Measures* in the Company's 2019 Management's Discussion and Analysis for a reconciliation of Adjusted EBITDA.

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

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

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

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

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

# SHAWCOR DIRECTORS

**J.T. BALDWIN**

*London, England*

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

**D.S. BLACKWOOD**

*Houston, Texas*

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

**L.A. CILLIS**

*Calgary, Alberta*

Ms. Cillis is a Chartered Professional Accountant and retired as the Senior Vice President, Finance and CFO of Calfrac Well Services Ltd. in 2013. She has been a Director of Shawcor since December 2019.

**J.W. DERRICK**

*Buffalo, New York*

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

**K.J. FORBES**

*West Sussex, England*

Mr. Forbes was a partner at Epi-V LLP from 2009 to 2017, and has been a Director of Shawcor since May 2014.

**M.S. HANLEY**

*Mount-Royal, Quebec*

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

**R. MIONIS**

*Scottsdale, Arizona*

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

**S.M. ORR**

*Toronto, Ontario*

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

**P.S. PIERCE**

*Houston, Texas*

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

**E.C. VALIQUETTE**

*Pembroke, Ontario*

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

**D.M. WISHART**

*Calgary, Alberta*

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

# PRIMARY OPERATING LOCATIONS

## PIPELINE AND PIPE SERVICES

**Bredero Shaw**
5875 N. Sam Houston Pkwy.
W.Suite 200
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F: +31 71 80 802 71

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T: 65 6477 5300
F: 65 6732 9073

**Canusa-CPS**
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T: 416 743 7111
F: 416 743 5927

**Shaw Pipeline Services**
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F: 281 886 2351

**Shawcor Inspection Services**
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T: 281 886 2350
F: 281 886 2351

**Dhatec**
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The Netherlands (NL)

T: +31 497 542 527l

**Lake Superior Consulting, LLC**
130 West Superior Street,
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Duluth, Minnesota 55802

T: 218 727 3141

## COMPOSITE SYSTEMS

**Flexpipe Systems**
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Suite 2200
Calgary, Alberta T2P 2Z1

T: 403 503 0548
F: 403 503 0547

**ZCL Composites Inc.**
1420 Parsons Road, S.W.
Edmonton, Alberta T6X 1M5

T: 780 466 6648
F: 780 466 6126

**Guardian**
950 – 30th Avenue
Nisku, Alberta T9E 0S2

T: 780 955 3380
F: 780 955 2822

## AUTOMOTIVE AND INDUSTRIAL

**DSG-Canusa**
25 Bethridge Road
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F: 416 743 7752

**ShawFlex**
25 Bethridge Road
Toronto, Ontario M9W 1M7

T: 416 743 7111
F: 416 743 2565

# CORPORATE INFORMATION

## CORPORATE OFFICERS

**D.M. Wishart**
Chair of the Board

**S.M. Orr**
President and
Chief Executive Officer

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

**D.R. Ewert**
Corporate Secretary

## OPERATIONS MANAGEMENT

**C.V. Havern**
Group President,
Integrity Management

**J.A. Tabak**
Group President, Composite
Production Systems

**K.D. Reizer**
Group President,
Pipeline Performance

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

**F. Cistrone**
Group President,
Connection Systems

**R.J. Dunn**
Senior Vice President,
Research and Development
(R&D) and Operations
Shawcor

**P.A. Pierroz**
Senior Vice President,
Corporate and Investor Relations
Shawcor

**G. Smith**
Senior Vice President,
Human Resources
Shawcor

**T. Hutzul**
Senior Vice President, Legal &
General Counsel
Shawcor

**T. Anderson**
Senior Vice President,
Western Hemisphere
Pipeline Performance

**S. Dewey**
Senior Vice President,
Eastern Hemisphere
Pipeline Performance

**S. Wilson**
Vice President,
Pipeline Performance Products

**R. Swor**
Vice President &
General Manager
Lake Superior Consulting

## CORPORATE ADDRESS, STOCK INFORMATION AND ANNUAL MEETING

**Head Office**
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F: 416 743 7199

**Transfer Agent
and Registrar**
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416 682 3860
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**Auditors**
**Ernst & Young LLP**

**Stock Listing**
The Toronto Stock Exchange
Common Shares
Trading Symbol: SCL

**Annual Meeting**
Tuesday, May 13, 2020
4:00 p.m.
Westin Toronto Airport Hotel
950 Dixon Rd.
Toronto, ON M9W 5N4

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