Shawcor Ltd.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Shawcor Ltd.

Opinion

We have audited the consolidated financial statements of Shawcor Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at December 31, 2020 and 2019, and 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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key Audit Matter	How our audit addressed the key audit matter
Impairment of goodwill, intangible assets and property, plant and equipment	
As detailed in Notes 24, 23 and 21 of the consolidated financial statements, the Group has \$231.6 million of goodwill, \$200.2 million of intangible assets and \$360.3 million of property, plant and equipment as at December 31, 2020. At each reporting date, management assesses whether indicators of impairment exist for any cash generating units ("CGUs"). Further, for all CGUs with goodwill or indefinite-life intangibles, an impairment test is performed annually. In the year ended December 31, 2020, impairment charges were recorded for goodwill, intangible assets and long-lived assets in the amounts of \$147.3 million, \$48.2 million and \$17.0 million, respectively, as detailed in Note 27. Auditing the Group's impairment tests were complex due to the subjective nature of the various management inputs and assumptions. The primary inputs noted were revenue growth rates, gross margins, operating costs, terminal values, and discount rates.	Our audit procedures in relation to the impairment tests included, but were not limited to, the following: • Assessed the appropriateness of the primary inputs by comparing them to third-party information, approved business plans, including order backlog, or historically realized results. • Performed sensitivity analyses to evaluate changes in the recoverable amount of the CGU that would result from changes in the assumptions. • Involved our valuation specialists to assess the methodology applied and the various inputs utilized in determining the discount rates by referencing current industry, economic, and comparable company information, as well as company and cash-flow specific risk premiums. • Evaluated the adequacy of disclosure in Note 27 to the consolidated financial statements in relation to this matter.

Key Audit Matter	How our audit addressed the key audit matter
Recognition of deferred income tax assets	
As detailed in Note 13 of the consolidated financial statements, the Group has $60.3 million of gross deferred tax assets, including $36.3 million related to non-capital loss carryforwards as at December 31, 2020. 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 and loss carryforwards can be utilized. The Group's ability to recognize deferred income tax assets is assessed by management at the end of each reporting period on a jurisdiction by jurisdiction basis, considering the timing of the reversal of deferred income tax assets and liabilities, and forecasts of future taxable income. We consider this to be a key audit matter as there is significant judgement required in forecasting future taxable income in the various jurisdictions in which the Group has tax loss carryforwards. These forecasts rely on the significant key assumptions and inputs of upcoming planned projects, revenue growth assumptions, operating and general expenditures, and the period over which the projection of future taxable profit is considered probable.	Our audit procedures in relation to the deferred income tax asset recognition included, but were not limited to, the following: • Evaluated the key assumptions noted in the forecasted future taxable income by comparing them to realized results. • With the support of our tax specialists, assessed the tax rates used and the mathematical accuracy of the calculation. • Compared the forecasted taxable income utilized for deferred income tax asset recoverability purposes with that utilized for goodwill impairment testing purposes and assessed whether they were consistent. • Evaluated the adequacy of disclosure in Note 13 to the consolidated financial statements in relation to this matter.

Other information

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

- Management's discussion and analysis

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.

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 IFRS, 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.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada

March 10, 2021

Shawcor Ltd.

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

(in thousands of Canadian dollars, except per share amounts)		**2020**		2019
Revenue				
Sale of products	**$**	**542,764**	$	662,533
Rendering of services		**635,718**		826,956
		1,178,482		1,489,489
Cost of Goods Sold and Services Rendered		**855,946**		1,062,450
Gross Profit		**322,536**		427,039
Selling, general and administrative expenses		**234,187**		299,758
Research and development expenses		**10,517**		12,647
Foreign exchange loss (gain)		**3,674**		(4,572)
Depreciation and amortization		**92,532**		100,858
Gains on sale of land and other (note 11)		**(2,246)**		(39,344)
Impairment (note 27)		**212,612**		104,103
Restructuring costs		**32,596**		–
Loss from Operations		**(261,336)**		(46,411)
Income from investments in associates (note 25)		**10,134**		14,459
Finance costs, net (note 12)		**(25,078)**		(21,175)
Cost associated with repayment of long-term debt and credit facilities (note 31)		**–**		(12,308)
Gain on sale of operating unit (note 5)		**52,118**		–
Net monetary loss (note 4)		**(1,768)**		(3,997)
Loss before Income Taxes		**(225,930)**		(69,432)
Income taxes expense (recovery) (note 13)		**8,625**		(36,137)
Net Loss	$	**(234,555)**	$	(33,295)
Net Loss Attributable to:				
Shareholders of the Company	**$**	**(234,167)**	$	(33,293)
Non-controlling interests		**(388)**		(2)
Net Loss	**$**	**(234,555)**	$	(33,295)
Loss per Share ("EPS") (note 14)				
Basic	**$**	**(3.33)**	$	(0.47)
Diluted	**$**	**(3.33)**	$	(0.47)
Weighted Average Number of Shares Outstanding (000s) (note 14)				
Basic		**70,364**		70,142
Diluted		**70,364**		70,142

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

Shawcor Ltd.

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

(in thousands of Canadian dollars)		**2020**		2019
Net loss	**$**	**(234,555)**	$	(33,295)
Other Comprehensive Income (Loss) to be Reclassified to Net (Loss) Income in Subsequent Periods				
Exchange differences on translation of foreign operations		**13,858**		(48,924)
Other comprehensive loss attributable to investments in associates		**(298)**		(107)
Cash flow hedge gains		**–**		3,869
Net Other Comprehensive Income (Loss) to be Reclassified to Net Income (Loss) in Subsequent Periods		**13,560**		(45,162)
Other Comprehensive (Loss) Income not to be Reclassified to Net Income (Loss) in Subsequent Periods				
Actuarial loss on defined benefit plans (note 17)		**(6,199)**		(419)
Income tax recovery (note 13)		**1,555**		124
Net Other Comprehensive Loss not to be Reclassified to Net Income (Loss) in Subsequent Periods		**(4,644)**		(295)
Other Comprehensive Income (Loss), Net of Income Taxes		**8,916**		(45,457)
Total Comprehensive Loss	**$**	**(225,639)**	$	(78,752)
Comprehensive Loss Attributable to:				
Shareholders of the Company	**$**	**(224,987)**	$	(77,981)
Non-controlling interests		**(652)**		(771)
Total Comprehensive Loss	**$**	**(225,639)**	$	(78,752)

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

Shawcor Ltd.

Consolidated Balance Sheets

As at December 31:

in thousands of Canadian dollars)		**2020**		2019
ASSETS				
Current Assets				
Cash and cash equivalents	**$**	**214,514**	$	98,218
Loans receivable		**–**		712
Accounts receivable (note 19)		**200,871**		246,745
Contract assets		**52,530**		41,616
Income taxes receivable		**12,304**		33,493
Inventory (note 20)		**126,328**		160,792
Prepaid expenses		**12,446**		17,560
Derivative financial instruments (note 8)		**691**		177
Total current assets		**619,684**		599,313
Non-current Assets				
Property, plant and equipment (notes 21)		**360,329**		420,027
Right-of-use assets (note 22)		**67,352**		84,269
Intangible assets (notes 23)		**200,168**		271,514
Investments in associates (note 25)		**11,594**		15,400
Deferred income tax assets (note 13)		**31,633**		37,462
Other assets (note 26)		**3,266**		5,396
Goodwill (notes 24)		**231,570**		377,704
Total non-current assets		**905,912**		1,211,772
TOTAL ASSETS	**$**	**1,525,596**	$	1,811,085
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities (note 28)		**177,140**		177,452
Provisions (note 29)		**18,394**		25,694
Income taxes payable		**17,924**		18,918
Derivative financial instruments (note 8)		**728**		330
Contract liabilities		**32,377**		43,693
Lease liabilities (note 22)		**18,590**		21,461
Other liabilities (note 30)		**4,434**		9,518
Total current liabilities		**269,587**		297,066
Non-current Liabilities				
Long-term debt (note 31)		**433,387**		435,462
Lease liabilities (note 22)		**53,576**		67,768
Provisions (note 29)		**17,857**		20,477
Employee future benefits (note 17)		**19,807**		15,390
Deferred income tax liabilities (note 13)		**6,874**		19,306
Other liabilities (note 30)		**7,815**		5,669
Total non-current liabilities		**539,316**		564,072
Total liabilities		**808,903**		861,138
Equity				
Share capital (note 33)		**719,615**		710,563
Contributed surplus		**26,494**		32,615
Retained (deficit) earnings		**(51,686)**		193,027
Non-controlling interests		**3,995**		4,647
Accumulated other comprehensive income		**18,275**		9,095
Total equity		**716,693**		949,947
TOTAL LIABILITIES AND EQUITY	**$**	**1,525,596**	$	1,811,085

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

Shawcor Ltd.

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

(in thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings	Non-controlling Interests	Accumulated Other Comprehensive Income	Total Equity
Balance – December 31, 2019	**$ 710,563**	**$ 32,615**	**$ 193,027**	**$ 4,647**	**$ 9,095**	**$ 949,947**
Net loss	**–**	**–**	**(234,167)**	**(388)**	**–**	**(234,555)**
Other comprehensive (loss) income	**–**	**–**	**–**	**(264)**	**9,180**	**8,916**
Comprehensive (loss) income	**–**	**–**	**(234,167)**	**(652)**	**9,180**	**(225,639)**
Compensation cost on exercised restricted share units	**9,052**	**(9,052)**	**–**	**–**	**–**	**–**
Stock-based compensation expense	**–**	**2,931**	**–**	**–**	**–**	**2,931**
Dividends declared and paid to shareholders (note 33)	**–**	**–**	**(10,546)**	**–**	**–**	**(10,546)**
Balance – December 31, 2020	**$ 719,615**	**$ 26,494**	**$ (51,686)**	**$ 3,995**	**$ 18,275**	**$ 716,693**

(in thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings	Non-controlling Interests	Accumulated Other Comprehensive Income	Total Equity
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 33)	–	–	(42,086)	–	–	(42,086)
Balance – December 31, 2019	**$ 710,563**	**$ 32,615**	**$ 193,027**	**$ 4,647**	**$ 9,095**	**$ 949,947**

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

Shawcor Ltd.

Consolidated Statements of Cash Flows

For the years ended December 31:

(in thousands of Canadian dollars)		2020		2019
Operating Activities				
Net Loss	**$**	**(234,555)**	$	(33,295)
Add (deduct) items not affecting cash				
Depreciation and amortization		**92,532**		100,858
Impairment (Note 27)		**212,612**		104,103
Impact of inventory revaluation adjustment		**–**		7,000
Interest expense on right-of-use asset leases (note 22)		**3,770**		3,566
Share-based compensation and incentive-based compensation (note 16)		**956**		3,442
Deferred income taxes (note 13)		**(3,182)**		(45,272)
Gain on disposal of property, plant and equipment		**(1,578)**		(181)
Gain on sale of land and other		**(2,246)**		(39,344)
Unrealized (gain) loss on derivative financial instruments		**(116)**		1,029
Income from investments in associates (note 25)		**(10,134)**		(14,459)
Gain on sale of operating unit (note 5)		**(52,118)**		–
Other		**(6,415)**		(6,847)
Change in non-cash working capital and foreign exchange (note 18)		**44,913**		(26,437)
Cash Provided by Operating Activities	**$**	**44,439**	$	54,163
Investing Activities				
Decrease in loans receivable		**748**		2,180
Decrease in short-term investments		**–**		2,046
Purchase of property, plant and equipment		**(24,021)**		(44,890)
Proceeds on disposal of property, plant and equipment		**10,763**		50,263
Proceeds on sale of operating unit (note 5)		**105,442**		–
Decrease in other assets		**–**		426
Proceeds from redemption of investment in associate (note 25)		**13,642**		29,171
Business acquisition net of cash acquired (note 6)		**–**		(291,477)
Cash Provided by (Used in) Investing Activities	**$**	**106,574**	$	(252,281)
Financing Activities				
Decrease in bank indebtedness		**–**		(17,608)
(Decrease) Increase of long-term debt (note 31)		**(3,328)**		165,692
Repayment of lease liabilities (note 22)		**(22,985)**		(24,635)
Issuance of shares (note 16)		**–**		357
Dividends paid to shareholders (note 33)		**(10,546)**		(42,086)
Cash (Used in) Provided by Financing Activities	**$**	**(36,859)**	$	81,720
Effect of Foreign Exchange on Cash and Cash Equivalents		**2,142**		(2,648)
Net increase (decrease) in Cash and Cash Equivalents		**116,296**		(119,046)
Cash and Cash Equivalents – Beginning of Year		**98,218**		217,264
Cash and Cash Equivalents – End of Year	**$**	**214,514**	$	98,218
Cash		**213,878**		95,680
Cash equivalents		**636**		2,538
Total Cash and Cash Equivalents	**$**	**214,514**	$	98,218
Supplemental Cash Flow Information				
Interest paid	**$**	**19,619**	$	19,713
Interest received	**$**	**239**	$	1,441
Income taxes (refund) paid	**$**	**(6,941)**	$	13,794

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 wholly owned 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 Automotive and Industrial segments of the energy industry. The Company operates eight divisions with 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.

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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, 2020.

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, 2020 were authorized for issue by the Company's Board of Directors (the “Board”) on March 10, 2021.

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 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 (loss) 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.

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 recognizes Right of Use (“ROU”) assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, 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.

b) Use of Estimates and Judgements

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.

The global COVID-19 pandemic, along with the turmoil in the oil and gas markets, has impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The extent and duration of the impact of COVID-19 and depressed oil prices that affect the carrying amounts of assets and liabilities, prices on the economy remain unclear. In the preparation of the year end consolidated financial statements, the Company has incorporated the potential impact of COVID-19 into its estimates and assumptions disclosure of contingent assets and liabilities and the reported amount of earnings for the reporting periods using the best available information as of December 31, 2020. Actual results could differ materially from those estimates. The estimates and assumptions that the Company considers critical and/or could be impacted by COVID-19 include those underlying the assumptions used in impairment of goodwill and intangible assets, the Company’s going concern assessment and the estimate of any expected credit losses on amounts receivable and determining the values of financial instruments for disclosure purposes.

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.

c) **Going Concern and Liquidity**

In the preparation of the year end consolidated financial statements, management is required to identify and use significant material judgements and estimates when these events or conditions indicate that significant doubt may exist about the

Company's ability to continue as a going concern. Significant doubt about the Company's ability to continue as a going concern would exist when relevant conditions and events, considered in the aggregate, indicate that the Company will not be able to meet its obligations as they become due for a period of at least, but not limited to, twelve months from the consolidated balance sheet date. The spread of COVID-19 and the recent developments surrounding the global pandemic and the turmoil in the Energy markets are having a material impact on all aspects of the Company's operation. When the Company identifies conditions or events that raise potential for significant doubt about its ability to continue as a going concern, the Company considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt.

In response to the uncertainty caused by the COVID-19 global pandemic and the volatility in the oil and gas industry, the Company has completed several restructuring initiatives, including the suspension of its dividend, to deliver significant cost savings and cash conservation. Based on these actions completed and planned, its diversified business and current backlog, the Company expects to generate sufficient cash flows to fund its operations, working capital requirements and capital program. However, the Company's ability to continue as a going concern for the next 12 months involves significant judgement and is dependent on the availability under its credit facility. On July 29, 2020, the Company successfully negotiated an amending agreement with its syndicate bank that provides covenant relief through December 2021. After considering its actions completed to date and its future plans, management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern for a period of 12 months from the consolidated balance sheet date. The estimates used by management in reaching this conclusion are based on information available as of the date these consolidated financial statements were authorized for issuance and include internally generated cash flow forecasts. Accordingly, actual results could differ from these estimates and resulting variances may be material to management's assessment.

d) Business Combinations

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

e) Foreign Currency Translation

<u>Functional and Presentation Currency</u>

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.

<u>Foreign Currency Transactions</u>

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.

<u>Translation of Foreign Operations</u>

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

- assets and liabilities for each consolidated balance sheet presented are translated at the closing rate at the date of that consolidated balance sheet; and

- income and expenses for each consolidated statement of (loss) income are translated at the average exchange rates prevailing for the year.

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

When a foreign operation is sold, exchange differences that were recorded in accumulated OCI are recognized in the consolidated statements of (loss) 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.

f) Financial Instruments

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

All financial liabilities are 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 (loss) 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
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

<u>Derivative Financial Instruments</u>

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

<u>Fair Value</u>

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 (loss) 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 (loss) 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 (loss) 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.

g) **Revenue Recognition**

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

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

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

Sale of Goods

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

Rendering of Services

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

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

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

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

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

h) **Borrowing Costs**

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

i) **Employee Future Benefits**

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

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

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

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

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

j) Share-based and Other Incentive-based Compensation

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

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 (loss) income. The fair value is recalculated using an option pricing model or other appropriate valuation technique.

k) Research and Development Costs

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

l) Investments in Joint Ventures

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

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

The aggregate of the Company's share of income or loss of a joint venture is shown separately on the consolidated statements of (loss) income and is excluded from (loss) 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 (loss) income.

m) **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 "income from investments in associates" in the consolidated statements of (loss) income.

A listing of all associates is presented in note 25.

n) **Income Taxes**

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

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

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

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

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

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

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

o) **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.

p) **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.

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 ECLs. The model is based on observed customer solvency, the aging of trade and other receivables, historical values and customer-specific and industry risks; external credit ratings as well as bank and trade references are reviewed when available.

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 (loss) 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 (loss) 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 (loss) 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 (loss) 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 (loss) income.

x) 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 consolidated financial statements includes adjustments and reclassifications for the changes in the general purchasing power of the Argentine peso ("ARS").

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current as at December 31, 2020. Non-monetary assets, liabilities, equity, revenue and expenses (items that are not already expressed in terms of the monetary unit as at December 31, 2020) 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 (loss) 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 (loss) 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.

3 New Accounting Standards Adopted

Definition of a Business – Amendments to IFRS 3

The IASB issued amendments to the definition of a business in IFRS 3, *Business Combinations* 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 was no material impact of adopting this standard on its consolidated financial statements.

Government Grants and Subsidies

The Company applied IAS 20, Accounting for *Government Grants and Disclosure of Government Assistance* in relation to the receipt of the Canada Emergency Wage Subsidy ("CEWS") and other programs as part of the governmental responses to the global COVID-19 health pandemic. Government assistance is recognized only when there is reasonable assurance that (a) the Company will comply with eligibility requirements and (b) the grant will be received. In the year ended December 31, 2020, the Company recognized and recorded $12.4 million as a reduction of Cost of Goods Sold and $18.1 million as a reduction in Selling, General and Administrative expenses.

4 Financial Reporting in Hyperinflationary Economies

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
2019 – December	1,053.54	1.3013	0.021690
2020 – March	1,137.44	1.2053	0.022055
2020 – June	1,203.10	1.1395	0.019344
2020 – September	1,269.71	1.0797	0.017511
2020 – December	1,370.93	1.0000	0.015143

5 Sale of Operating Unit

On December 23, 2020, the Company announced that it sold its Pipeline Performance Products business (the "Products business") for the purchase price of $91.5 million U.S. dollars subject to working capital adjustments. The sale of this operating unit resulted in a gain of $52.1 million.

The operating unit referred to as Pipeline Performance Products included Canusa-CPS which manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications and Dhatec which designs and assembles engineered pipe logistics products and services.

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

Details of sale of operating unit
(in millions of Canadian dollars)

Purchase Price	$	**116.4**
Net working capital adjustments		**(2.6)**
Total Adjusted Purchase price	$	**113.8**
Costs related to sale	$	**(5.3)**
Carrying amount of net assets sold		**(56.4)**
Gain on Sale before income tax	$	**52.1**
Total Adjusted Purchase price	$	**113.8**
Amount held in Escrow		**(8.4)**
Net Cash Proceeds Received from Sale	$	**105.4**

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.

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 2020**		December 31 2019
Long-term debt	**$**	**433,387**	$	435,462
Lease obligations		**72,166**		89,229
Equity		**716,693**		949,947
	$	**1,222,246**	$	1,474,638

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions, the risk characteristics of the underlying assets and business investment opportunities. To maintain or adjust the capital structure, the Company may issue or reacquire shares, acquire or dispose of assets, or adjust the amount of cash and cash equivalents, bank indebtedness or long-term debt balances. The Company's capital is not subject to any capital requirements imposed by any regulators; however, it is limited by the terms of its 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, 2020. Please refer to note 31 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 2020**	December 31 2019
Loans and Receivables, Measured at Amortized Cost		
Cash and cash equivalents	**$ 214,514**	$ 98,218
Accounts receivable (note 19)	**200,871**	246,745
Loans receivable	**–**	712
Deposit guarantee	**260**	242
Fair Value through Profit or Loss		
Derivative financial instruments – assets	**$ 691**	$ 177
Derivative financial instruments – liabilities	**728**	330
Financial Liabilities, Measured at Amortized Cost		
Accounts payable (note 28)	**$ 78,986**	$ 74,191
Long-term debt (note 31)	**433,387**	435,462

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, 2020:

(in thousands of Canadian dollars)	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets				
Derivative financial instruments	**$ 691**	**$ –**	**$ 691**	**$ –**
Deposit guarantee	**260**	**–**	**260**	**–**
	$ 951	**$ –**	**$ 951**	**$ –**
Liabilities				
Long-term debt (note 32)	**$ 433,387**	**–**	**$ 433,387**	**$ –**
Derivative financial instruments	**728**	**–**	**728**	**–**
	$ 434,115	**$ –**	**$ 434,115**	**$ –**

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, 2020, 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, 2020 by approximately $46.0 million, ($11.9) million and ($14.1) 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 $42.1 million, $12.8 million and $29.3 million, respectively, as at December 31, 2020.

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 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, 2020:

(in thousands, except weighted average rate amounts)	
US dollars sold for Euros	
Less than one year	**US$ 20,519**
Weighted average rate	**0.84**
Euros sold for US dollars	
Less than one year	**€ 9,844**
Weighted average rate	**1.17**
Canadian dollars sold for British pounds	
Less than one year	**CDN$ 7,467**
Weighted average rate	**0.58**

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

As at December 31, 2020, the Company had notional amounts of $49.0 million of foreign exchange forward contracts outstanding (2019 – $60.0 million) with the fair value of the Company's net loss from all foreign exchange forward contracts totalling $0.1 million (2019 – $0.2 million net loss).

Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at December 31, 2020:

(in thousands of Canadian dollars)	Non-interest Bearing	Floating Rate	Fixed Interest Rate	Total
Financial Assets				
Cash equivalents	$ –	$ –	$ 636	$ 636
Financial Liabilities				
Standard letters of credit for performance, bid and surety bonds	$ 43,697	$ –	$ –	$ 43,697
Long-term debt	–	433,387	–	433,387
	$ 43,697	$ 433,387	$ –	$ 477,084

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, 2020 and 2019, there was no customer who generated more than 10% of total consolidated revenue. As at December 31, 2020 and 2019, 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 (loss) 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, 2020, $19.6 million, or 11%, of trade accounts receivable was more than 90 days overdue, compared to $15.0 million, or 7%, as at December 31, 2019. The Company expects to receive full payment on accounts receivable that are neither past due nor impaired. In addition, the Company has not incurred any material accounts receivable collection loss in the current year directly related to the COVID-19 pandemic.

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

(in thousands of Canadian dollars)	**2020**	2019
Balance - Beginning of Year	**$ (3,869)**	$ (4,771)
ECL expense	**(1,576)**	(608)
Recovery of amounts previously provided for	**852**	1,448
ECL written off	**511**	205
Impact of change in foreign exchange rates	**673**	(143)
Balance - End of Year	**$ (3,409)**	$ (3,869)

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, 2020, the Company had cash and cash equivalents totalling $214.5 million (2019 – $98.2 million) and had unutilized lines of credit available to use of $246.3

million (2019 – $275.6 million). The decline in unutilized lines of credit available is primarily due to the weakening of the U.S. dollar against the Canadian dollar as the credit facility is U.S. dollar denominated.

The following are the contractual maturities of the Company's purchase commitments and financial liabilities as at December 31, 2020:

(in thousands of Canadian dollars)	2021	2022	2023	2024	2025	Thereafter	Total
	$	$	$	$	$	$	$
Purchase commitments	69,653	–	–	–	–	–	69,653
Accounts payable	78,986	–	–	–	–	–	78,986
Long-term debt	–	–	433,387	–	–	–	433,387
Obligations under leases	21,232	14,708	11,300	8,665	5,473	13,169	74,547
Common area maintenance obligations under leases	2,299	1,876	1,376	896	688	2,927	10,062
Low value/short-term leases	1,337	29	31	31	31	69	1,528
Total	**173,507**	**16,613**	**446,094**	**9,592**	**6,192**	**16,165**	**668,163**

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.

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 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 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. This operating unit was sold at the end of the fourth quarter of 2020. The Company's results include the financial performance of this operating unit up to the date of the sale (note 5);
- 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 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 manufactures reinforced plastic underground storage tanks for the retail fuel, water and wastewater and oil and gas markets; and

- Oilfield Asset Management 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

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 includes DSG Canusa, a global manufacturer of heat-shrinkable products including thin, medium and heavy-walled tubing, sleeves and molded products as well as heat-shrink accessories and equipment and Shawflex, a manufacturer of 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) — 2020

	Pipeline and Pipe Services	Composite Systems	Automotive and Industrial	Financial and Corporate	Eliminations and Adjustments	Total
	$	$	$	$	$	$
Revenue						
External	**661,620**	**320,129**	**196,733**	**–**	**–**	**1,178,482**
Inter-Segment	**600**	**704**	**1,557**	**–**	**(2,861)**	**–**
Total Revenue	**662,220**	**320,833**	**198,290**	**–**	**(2,861)**	**1,178,482**
Operating expenses[(a)]	**663,950**	**258,806**	**162,746**	**11,166**	**(2,861)**	**1,093,807**
Research and development expenses	**2,370**	**6,232**	**757**	**1,158**	**–**	**10,517**
Depreciation and amortization	**51,439**	**33,780**	**4,619**	**2,694**	**–**	**92,532**
Restructuring costs	**19,032**	**4,541**	**6,425**	**2,598**		**32,596**
Gains on sale of land and other	**(1,213)**	**–**	**(1,033)**	**–**	**–**	**(2,246)**
(Loss) Income from Operations for CODM	**(73,358)**	**17,474**	**24,776**	**(17,616)**	**–**	**(48,724)**
Impairment	**202,784**	**9,828**	**–**	**–**	**–**	**212,612**
(Loss) Income from Operations	**(276,142)**	**7,646**	**24,776**	**(17,616)**	**–**	**(261,336)**
Additions to property, plant and equipment, net of disposals	**5,293**	**7,510**	**2,091**	**319**	**–**	**15,213**
Goodwill	**70,627**	**142,514**	**18,429**	**–**	**–**	**231,570**
Total assets	**489,451**	**600,808**	**143,746**	**337,788**	**(46,197)**	**1,525,596**
Total liabilities	**220,761**	**132,451**	**37,972**	**411,558**	**6,161**	**808,903**

(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 expenses[(a)]	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
Depreciation and amortization	64,069	30,214	4,481	2,094	–	100,858
Gains on sale of land and other	(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

a) Operating expense includes selling, general and administrative expenses and foreign exchang gain and loss.

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) **2020**

	Canada	**USA**	**Latin America**	**EMAR[(a)]**	**Asia Pacific**	**Eliminations**	**Total**
Revenue							
External	**$ 237,079**	**$ 494,710**	**$ 52,957**	**$ 289,686**	**$ 104,050**	**$ –**	**$ 1,178,482**
Inter-segment	**2,608**	**253**	**–**	**–**	**–**	**(2,861)**	**–**
Total revenue	**$ 239,687**	**$ 494,963**	**$ 52,957**	**$ 289,686**	**$ 104,050**	**$ (2,861)**	**$ 1,178,482**
Non-current assets[(b)]	**$ 388,770**	**$ 308,471**	**$ 37,040**	**$ 98,788**	**$ 29,204**	**$ –**	**$ 862,273**

(in thousands of Canadian dollars) 2019

	Canada	USA	Latin America	EMAR[(a)]	Asia Pacific	Eliminations	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

(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

(in thousands of Canadian dollars)	**2020**	2019
Salaries, wages and employee benefits	**$ 465,229**	$ 583,496
Pension (note 17)	**14,368**	14,537
Share-based and other incentive-based compensation (note 16)	**2,329**	3,125
Total	**$ 481,926**	$ 601,158

11 Gains on Sale of Land and Other

In the third and fourth quarters of 2020, the Company sold one facility in Regina and equipment and other assets in Toronto, and recorded gains of $1.2 million and $1.0 million, respectively.

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 quarters 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)		**2020**		2019
Interest income	**$**	**(587)**	$	(1,786)
Interest expense on long-term debt		**17,916**		16,543
Interest expense, other		**3,979**		2,852
Interest expense on ROU assets		**3,770**		3,566
Finance Costs, Net	**$**	**25,078**	$	21,175

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)		**2020**		2019
Current Income Taxes				
Based on taxable income of current year	**$**	**9,386**	$	9,020
Adjustment to prior year provision		**2,421**		115
		11,807		9,135
Deferred Income Taxes				
Reversal of temporary differences		**(3,182)**		(45,272)
Total Income Tax Expense (Recovery)	**$**	**8,625**	$	(36,137)

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)		**2020**		2019
Income tax expense on actuarial gains and losses on defined benefit plans	**$**	**(1,555)**	$	(124)
Income Tax Recovery Charged to OCI	**$**	**(1,555)**	$	(124)

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

	2020	2019
	%	%
Expected income tax expense based on statutory rate	**25.7**	26.6
Tax rate differential on earnings of foreign subsidiaries	**(1.2)**	(9.8)
Benefit of previously unrecognized tax losses	**3.7**	24.2
Deferred tax not recognized	**(23.8)**	(13.5)
Adjustment to prior-year provision	**0.2**	0.2
Non-deductible amounts	**(9.5)**	14.9
Withholding taxes	**(0.4)**	(1.7)
Argentina hyperinflation adjustment	**(0.5)**	(1.1)
Movement in uncertain tax positions	**(0.6)**	4.2
State tax and other	**2.6**	8.0
Effective Income Tax Rate	**(3.8)**	52.0

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 2020**	December 31 2019
Deferred Income Tax Assets		
Property, plant and equipment	**$ 2,521**	$ 1,791
Provisions and future expenditures	**20,066**	49,321
Non-capital losses	**36,289**	43,391
Capital losses	**1,389**	929
	60,265	95,432
Deferred Income Tax Liabilities		
Property, plant and equipment	**(13,685)**	(22,906)
Provisions and future expenditures	**(21,821)**	(54,370)
	(35,506)	(77,276)
Net Deferred Income Tax Asset	**$ 24,759**	$ 18,156

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 2020**	December 31 2019
Deferred income tax assets	**$ 31,633**	$ 37,462
Deferred income tax liabilities	**(6,874)**	(19,306)
	$ 24,759	$ 18,156

The Company has recorded deferred income tax assets of $36.3 million as at December 31, 2020 (2019 – $43.4 million), pertaining to loss carry forwards based on management's financial projections and the relevant income tax legislation in each jurisdiction.

(in thousands of Canadian dollars)	Consolidated Statements of (Loss) Income 2020	2019
Deferred Income Tax Assets		
Property, plant and equipment	**$ (730)**	$ (1,185)
Provisions and future expenditures	**29,255**	(30,176)
Non-capital losses	**7,102**	(14,823)
Capital losses	**(460)**	47
Change in deferred income tax assets	**35,167**	(46,137)
Deferred Income Tax Liabilities		
Property, plant and equipment	**(9,221)**	7,544
Provisions and future expenditures	**(32,549)**	47,095
Change in deferred income tax liabilities	**(41,770)**	54,639
Change in Deferred Income Taxes	**(6,603)**	8,502
Deferred income taxes in OCI	**1,555**	124
Acquisition and purchase price accounting	**–**	(54,570)
Sale of operating unit	**1,129**	–
Foreign exchange and other	**737**	672
Deferred Income Tax Recovery in Net Loss	**$ (3,182)**	$ (45,272)

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, 2020 and 2019, 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 $110.8 million and $111.3 million for the years ended December 31, 2020 and 2019, respectively.

The Company has net operating losses of $431.8 million for the year ended December 31, 2020 (2019 – losses of $309.1 million) in various jurisdictions for which no deferred income tax asset has been recognized. These losses expire subsequent to the 2025 fiscal year. The Company has capital losses of $33.3 million and $68.0 million for the years ended December 31, 2020 and 2019, respectively, in various jurisdictions for which no deferred income tax asset has been recognized. These capital losses can be carried forward indefinitely.

14 Loss Per Share

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

(in thousands of Canadian dollars, except share and per share amounts)		**2020[(a)]**		2019[(a)]
Net loss used to calculate EPS				
Net loss (attributable to the shareholders of the Company)	**$**	**(234,167)**	$	(33,293)
Weighted average number of shares outstanding – basic (000s)		**70,364**		70,142
Dilutive effect of stock options		–		–
Weighted average number of shares outstanding – diluted (000s)		**70,364**		70,142
Basic EPS	**$**	**(3.33)**	$	(0.47)
Diluted EPS	**$**	**(3.33)**	$	(0.47)

(a) All potentially dilutive instruments are anti-dilutive in 2019 and 2020 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)		**2020**		2019
Salaries and other short-term incentive compensation and employee benefits	**$**	**2,337**	$	1,787
Post-employment benefits – defined benefit plans		**520**		352
Share-based and other incentive based compensation		**657**		3,671
Directors' fees and other compensation		**(1,038)**		841
Total	**$**	**2,476**	$	6,651

The compensation reported for 2020 reflect the drop in value of the DSU plans associated with the drop in share price.

16 Share-based and Other Incentive-based Compensation

Incentive-based Compensation

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

(in thousands of Canadian dollars)		**2020**		2019
Stock option expense	**$**	**1,028**	$	1,178
VGP recovery		**(623)**		(612)
DSU (recovery) expense		**(1,373)**		317
RSU expense		**1,903**		2,623
SAR expense (recovery)		**20**		(82)
PIP expense		**1**		18
Total Share-based and Other Incentive-based Compensation Expense	**$**	**956**	$	3,442

As at December 31, 2020, 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

	2020			2019		
	Total Shares		**Weighted Average Exercise Price**	Total Shares		Weighted Average Exercise Price
Balance Outstanding – Beginning of Year	**937,110**	**$**	**29.44**	1,264,385	$	33.58
Granted	**405,352**		**7.59**	224,400		21.05
Exercised	**–**		**–**	(23,080)		15.51
Cancelled/Forfeited	**(100,000)**		**42.28**	(528,595)		36.39
Expired	**(2,510)**		**37.32**	–		–
Balance Outstanding – End of Year	**1,239,952**	**$**	**21.24**	937,110	$	29.44
Options Exercisable	**411,520**	**$**	**30.27**	352,570	$	35.03

December 31, 2020

	Options Outstanding				**Options Exercisable**		
Range of Exercise Prices	**Outstanding as at December 31, 2020**	**Weighted Average Remaining Contractual Life (years)**		**Weighted Average Exercise Price**	**Exercisable as at December 31, 2020**		**Weighted Average Exercise Price**
$1.62 to $5.00	**65,000**	**9.00**		**3.23**	**–**		**–**
$5.01 to $10.00	**340,352**	**9.00**		**8.42**	**–**		**–**
$20.01 to $25.00	**224,400**	**8.00**		**21.05**	**44,880**		**21.05**
$25.01 to $30.00	**345,900**	**6.44**		**25.58**	**176,700**		**25.78**
$30.01 to $35.00	**54,300**	**4.31**		**32.30**	**45,300**		**32.32**
$35.01 to $40.00	**189,700**	**5.72**		**37.18**	**124,340**		**37.06**
$40.01 to $45.00	**10,000**	**2.00**		**41.28**	**10,000**		**41.28**
$45.01 to $50.00	**10,300**	**3.00**		**45.73**	**10,300**		**45.73**
	1,239,952	**7.29**	**$**	**21.24**	**411,520**	**$**	**30.27**

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

The Board approved the granting of 405,352, stock options (2019 – 224,400) during the year ended December 31, 2020 under the Amended 2001 Employee Plan. The total fair value of the stock options granted during the year ended December 31, 2020 was $0.8 million (2019 – $1.0 million) and was calculated using the Black-Scholes option pricing model with the following assumptions:

	2020	2019
Weighted average share price	**$ 7.59**	$ 21.05
Exercise price	**$ 7.59**	$ 21.05
Weighted average expected life of options	**6.25**	6.25
Weighted average expected stock price volatility	**39.3%**	26.5%
Weighted average expected dividend yield	**1.72%**	2.73%
Weighted average risk-free interest rate	**0.99%**	1.70%

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, 2020, included in selling, general and administrative expenses, was $1.0 million (2019 – $1.2 million).

Stock Options with Tandem Share Appreciation Rights

	2020		2019	
	Total Shares	**Weighted Average Fair Value[(a)]**	Total Shares	Weighted Average Fair Value
Balance Outstanding – Beginning of Year	**434,200**	**$ 7.62**	426,000	$ 8.79
Granted	**199,975**	**2.15**	91,700	4.61
Cancelled/forfeited	**(31,995)**	**3.99**	(83,500)	10.30
Balance Outstanding – End of Year	**602,180**	**$ 6.00**	434,200	$ 7.62
Options Exercisable	**263,480**	**$ 8.45**	190,020	$ 9.43

(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, 2020 is $0.1 million (2019 – $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").

<u>VGP</u>

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, 2020 is $4.4 million (2019 – $8.6 million).

<u>ESUP</u>

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:

	2020			2019		
	Total Shares		**Weighted Average Grant Date Fair Value[(a)(b)]**	Total Shares		Weighted Average Grant Date Fair Value[(a)(b)]
Balance Outstanding – Beginning of Year	**664,949**	**$**	**29.34**	611,840	$	31.02
Granted	**110,331**		**6.47**	106,199		19.38
Exercised	**(268,488)**		**31.44**	(38,854)		29.41
Forfeited /cancelled	**(29,302)**		**23.11**	(14,236)		26.87
Expired	**(2,473)**		**26.43**	–		–
Balance Outstanding – End of Year	**475,017**	**$**	**23.85**	664,949	$	29.34
RSUs/PSUs Exercisable	**210,126**	**$**	**30.86**	378,600	$	32.88

(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, 2020 is $0.5 million (December 31, 2019 – $0.5 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:

	2020			2019		
	Total Shares		**Weighted Average Grant Date Fair Value [(a)]**	Total Shares		Weighted Average Grant Date Fair Value [(a)]
Balance Outstanding – Beginning of Year	**314,416**	**$**	**27.10**	218,498	$	31.89
Granted	**559,841**		**2.17**	95,918		16.21
Exercised	**(318,514)**		**1.87**	–		–
Balance Outstanding – End of Year	**555,743**	**$**	**16.45**	314,416	$	27.10

(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, 2020 is $2.0 million (2019 – $3.9 million), all of which is included in current and non-current other liabilities on the consolidated balance sheets.

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 2020 were $2.2 million (2019 – $2.8 million). The total cash payments made by the Company to fund the defined contribution pension arrangements during 2020 were $10.9 million (2019 – $10.9 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 December 31, 2019 (two plans), December 31, 2017 (one plan), July 31, 2019 (one plan), January 1, 2020 (two plans), and August 1, 2020 (one plan).

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

(in thousands of Canadian dollars)		**December 31 2020**		December 31 2019
Accrued Employee Future Benefit Asset				
Pension plans (note 26)	**$**	**412**	$	2,350
Accrued Employee Future Benefit Liability				
Pension plans	**$**	**(16,679)**	$	(12,521)
Post-employment benefits		**(2,990)**		(2,740)
Post-retirement life insurance		**(138)**		(129)
	$	**(19,807)**	$	(15,390)

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

	December 31 2020	December 31 2019
Investments Quoted in Active Markets		
Cash and cash equivalents	**4%**	6%
Equity instruments	**65%**	63%
Debt instruments	**31%**	31%
	100%	100%

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

	December 31 2020	December 31 2019
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, 2020 and 2019 amounted to $9.6 million and $15.8 million, respectively.

Employee Future Benefit Cost

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

(in thousands of Canadian dollars)	**December 31 2020**	December 31 2019
Current service costs	**$ 2,517**	$ 2,606
Administrative expenses	**540**	–
Past service costs and impact of settlements, curtailments and termination benefits	**(1,152)**	1
Interest cost on defined benefit obligation	**4,048**	4,506
Interest income on plan assets	**(3,641)**	(4,118)
	2,312	2,995
Impact of asset ceiling/minimum funding requirement	**53**	66
Defined benefit cost recognized	**2,365**	3,061
Defined contribution cost recognized	**12,003**	11,476
Employee Future Benefit Cost Recognized[(a)]	**$ 14,368**	$ 14,537

(a) The total amount is included in the consolidated statements of (loss) 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 2020**	December 31 2019
Valuation effect	**$ 712**	$ (92)
Return on plan assets (excluding amounts included in interest income)	**(5,983)**	(11,730)
Net actuarial losses recognized in the year	**12,374**	12,309
Experience gains due to administrative expenses	**(69)**	–
Other changes in asset ceiling/minimum funding requirement not included in net interest cost	**(770)**	42
Foreign exchange differences	**(65)**	(110)
Employee Future Benefit Income Recognized in OCI	**$ 6,199**	$ 419

Changes in the defined benefit obligation are as follows:

(in thousands of Canadian dollars)	**December 31 2020**	December 31 2019
Balance - Beginning of Year	**$ 144,109**	$ 131,508
Valuation effect	**–**	(682)
Employer current service cost	**2,517**	2,606
Net interest cost	**4,048**	4,506
Past service costs and impact of settlements, curtailments and termination benefits	**(1,152)**	1
Benefit payments	**(5,998)**	(5,629)
Actuarial gains due to changes in demographic assumptions	**(81)**	(438)
Actuarial losses due to changes in economic assumptions	**12,781**	13,058
Experience gains	**(326)**	(311)
Foreign exchange differences	**79**	(510)
Balance - End of Year	**$ 155,977**	$ 144,109

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

(in thousands of Canadian dollars)	2020	2019
Balance - Beginning of Year	**$ 133,308**	$ 121,266
Valuation effect	**(712)**	(590)
Employer contributions	**2,209**	2,833
Benefit payments	**(5,998)**	(5,629)
Interest income on plan assets	**3,641**	4,118
Administrative expense paid from fund	**(471)**	–
Return on plan assets (excluding amounts included in interest income)	**5,983**	11,730
Foreign exchange differences	**157**	(420)
Balance - End of Year	**$ 138,117**	$ 133,308

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

	2020	2019
Canada		
Defined benefit obligation		
Discount rate	**2.43%**	3.09%
Future salary increase	**3.15%**	3.95%
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	**3.09%**	3.85%
Future salary increase	**3.00%**	3.00%
Norway		
Defined benefit obligation		
Discount rate	**1.70%**	2.20%
Future salary increase	**2.25%**	2.25%
Future pension increase	**0.00%**	0.50%
Mortality	**K2013**	K2013
Benefit cost for the year ended December 31		
Discount rate	**2.20%**	2.60%
Future salary increase	**2.25%**	2.75%
United Kingdom		
Defined benefit obligation		
Discount rate	**1.40%**	2.00%
Future salary increase	**n/a**	n/a
Future pension increase	**2.40%**	2.20%
Mortality	**S3PMA (projected)**	S2PA (projected)
Benefit cost for the year ended December 31		
Discount rate	**2.00%**	2.80%
Future salary increase	**n/a**	n/a
Indonesia		
Defined benefit obligation		
Discount rate	**6.35%**	7.50%
Future salary increase	**8.0% (local), 5.0% (expat)**	8.1% (local), 5.5% (expat)
Future pension increase	**n/a**	n/a
Mortality	**Indonesia's Table 2019**	Indonesia's Table 2011
Benefit cost for the year ended December 31		
Discount rate	**7.50%**	8.20%
Future salary increase	**8.10% (local), 5.50% (expat)**	8.10% (local), 5.50% (expat)

Sensitivity Analysis

A quantitative sensitivity analysis for significant assumptions as at December 31, 2020 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	**10,902**	**7.0%**
Increase of 50 basis points	**(9,868)**	**(6.3%)**
Future salary increase		
Decrease of 50 basis points	**(1,429)**	**(0.9%)**
Increase of 50 basis points	**1,482**	**1.0%**
Mortality Assumption – Impact of Life Expectancy being one year longer	**5,056**	**3.2%**

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, 2020.

Other Information

The Company expects to contribute $3.2 million to its defined benefit plans for the year ending December 31, 2021.

The average duration of the defined benefit plans as at December 31, 2020 is 13 years.

18 Supplemental Cash Flow Information

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

(in thousands of Canadian dollars)	**December 31 2020**	December 31 2019
Accounts receivable	**$ 26,902**	$ (5,248)
Inventory	**13,234**	(23,795)
Prepaid expenses	**4,553**	4,556
Contract assets	**(10,914)**	(10,212)
Contract liabilities	**(11,126)**	20,090
Total accounts payable and accrued liabilities, income taxes, and other liabilities	**17,881**	(40,467)
Foreign exchange gain and other	**4,383**	28,639
Total change in non-cash working capital	**$ 44,913**	$ (26,437)

19 Accounts Receivable

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

(in thousands of Canadian dollars)		**December 31 2020**		December 31 2019
Trade accounts receivable	**$**	**171,385**	$	222,378
ECL accounts		**(3,409)**		(3,869)
Other receivables		**32,895**		28,236
	$	**200,871**	$	246,745

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

(in thousands of Canadian dollars)		**December 31 2020**		December 31 2019
Current	**$**	**105,991**	$	123,102
Past due 1 to 30 days		**24,908**		51,143
Past due 31 to 60 days		**15,640**		24,115
Past due 61 to 90 days		**5,276**		9,014
Past due for more than 90 days		**19,570**		15,004
Total trade accounts receivable		**171,385**		222,378
Less: ECL accounts		**(3,409)**		(3,869)
Trade Accounts Receivable, Net	**$**	**167,976**	$	218,509

20 Inventory

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

(in thousands of Canadian dollars)		**December 31 2020**		December 31 2019
Raw materials and supplies	**$**	**85,867**	$	86,821
Work-in-progress		**9,135**		13,724
Finished goods		**48,795**		75,564
Inventory obsolescence		**(17,469)**		(15,317)
	$	**126,328**	$	160,792

During 2020, the Company recorded an increase of $2.1 million (2019 – decrease of $7.0 million) in the provision for inventory obsolescence.

21 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, 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 asset 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	**$** 1,231,015
Exchange differences	552	1,419	(7,951)	(7)	(5,987)
Additions	1,428	6,081	22,243	(648)	29,104
Disposals	–	(12,613)	(78,325)	(3,668)	(94,606)
Argentina hyperinflation adjustment	5	636	1,431	9	2,081
Balance - December 31, 2020	**$ 79,794**	**$ 209,843**	**$ 843,856**	**$ 28,114**	**$ 1,161,607**

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in-progress	Total
Accumulated Amortization					
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 asset 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)
Exchange differences	188	1,199	4,683	–	6,070
Amortization	(739)	(7,044)	(44,517)	–	(52,300)
Disposals	–	3,705	57,777	–	61,482
Balance - December 31, 2020	**$ (16,800)**	**$ (105,864)**	**$ (583,397)**	**$ –**	**$ (706,061)**

(in thousands of Canadian dollars)	Land and Land Improvements	Buildings	Machinery and Equipment	Capital Projects-in-progress	Total
Accumulated Impairment					
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)
Exchange differences	(25)	(2,030)	1,692	–	(363)
Impairment	27	(326)	(16,737)	–	(17,036)
Disposals	–	4	11,853	–	11,857
Balance - December 31, 2020	**$ (2,739)**	**$ (25,667)**	**$ (66,811)**	**$ –**	**$ (95,217)**
Net book value					
As at December 31, 2019	$ 58,819	$ 87,281	$ 241,499	$ 32,428	$ 420,027
As at December 31, 2020	**$ 60,255**	**$ 78,312**	**$ 193,648**	**$ 28,114**	**$ 360,329**

22 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, 2020	**$ 78,379**	**$ 1,065**	**$ 4,825**	**$ 84,269**	**$ 89,229**
Addition	**10,604**	**353**	**421**	**11,378**	**12,215**
ROU interest expense	**–**	**–**	**–**	**–**	**3,770**
Amortization expense	**(20,014)**	**(543)**	**(1,237)**	**(21,794)**	**–**
Disposal	**(6,805)**	**(177)**	**(240)**	**(7,222)**	**(6,103)**
Payments	**–**	**–**	**–**	**–**	**(26,755)**
Foreign exchange difference	**357**	**8**	**356**	**721**	**(190)**
As at December 31, 2020	**$ 62,521**	**$ 706**	**$ 4,125**	**$ 67,352**	**$ 72,166**
As at January 1, 2019	$ 56,976	$ 1,065	$ 4,825	$ 84,269	$ 89,229
Finance lease reclassified to ROU 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 (loss) income for the years ended December 31:

(in thousands of Canadian dollars)		**2020**		2019
Amortization expense – ROU assets	**$**	**21,794**	$	19,495
Interest expense on lease liabilities		**3,770**		3,566
Rent expense – short-term and low value leases		**6,919**		10,901
Rent expense – variable lease payments		**1,857**		2,544
Total	**$**	**34,340**	$	36,506

23 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, 2018	$ 83,494	$ 282,827	$ 2,275	$ 368,596
Acquisition	63,000	35,583	94,000	192,583
Exchange differences	(3,398)	(16,098)	(2,118)	(21,614)
Argentina hyperinflation adjustment	861	935	–	1,796
Balance - December 31, 2019	$ 143,957	$ 303,247	$ 94,157	$ 541,361
Exchange differences	(2,646)	(8,839)	(1,447)	(12,932)
Disposal	(2,664)	(10,684)	–	(13,348)
Argentina hyperinflation adjustment	688	309	–	997
Balance - December 31, 2020	**$ 139,335**	**$ 284,033**	**$ 92,710**	**$ 516,078**
Accumulated Amortization				
Balance - December 31, 2018	$ (50,936)	$ (85,764)	$ –	$ (136,700)
Exchange differences	1,231	5,581	–	6,812
Amortization	(9,213)	(16,946)	–	(26,159)
Balance - December 31, 2019	$ (58,918)	$ (97,129)	$ –	$ (156,047)
Exchange differences	(2,652)	6,667	–	4,015
Amortization	(5,643)	(12,795)	–	(18,438)
Disposal and write-offs	2,664	5,313	–	7,977
Balance - December 31, 2020	**$ (64,549)**	**$ (97,944)**	**$ –**	**$ (162,493)**
Accumulated Impairment				
Balance - December 31, 2018	$ (10,482)	$ (65,285)	$ (675)	$ (76,442)
Exchange differences	588	3,910	–	4,498
Impairment (note 27)	–	(41,856)	–	(41,856)
Balance - December 31, 2019	$ (9,894)	$ (103,231)	$ (675)	$ (113,800)
Exchange differences	737	7,893	–	8,630
Impairment (note 27)	(1,014)	(47,233)	–	(48,247)
Balance - December 31, 2020	**$ (10,171)**	**$ (142,571)**	**$ (675)**	**$ (153,417)**
Net book value				
As at December 31, 2019	$ 76,563	$ 101,469	$ 93,482	$ 271,514
As at December 31, 2020	**$ 64,615**	**$ 43,518**	**$ 92,035**	**$ 200,168**

(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, 2020 is $43.6 million (2019 – $100.5 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).

24 Goodwill

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

(in thousands of Canadian dollars)		**December 31 2020**		December 31 2019
Net Balance - Beginning of Year	**$**	**377,704**	$	350,402
Foreign exchange		**8,922**		(18,381)
Disposal		**(8,563)**		–
Acquisition		**–**		93,396
Impairment		**(147,329)**		(49,063)
Argentina hyperinflation adjustment		**836**		1,350
Net Balance - End of Year	**$**	**231,570**	$	377,704

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

(in thousands of Canadian dollars)		**December 31 2020**		December 31 2019
Bredero Shaw	**$**	**57,351**	$	192,964
Flexpipe Systems		**49,730**		49,730
ZCL Composites Inc.		**92,784**		92,641
Socotherm Americas (Argentina)		**–**		3,607
Pipeline and Pipe Services Products		**–**		8,001
DSG-Canusa GmbH		**18,429**		17,218
Lake Superior		**13,276**		13,543
	$	**231,570**	$	377,704

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. In the first quarter of 2020, the Company performed an impairment test due to the impact from Covid-19 and recorded an impairment of goodwill of $143.6 million in Pipeline and Pipe Services Products. At the Annual Goodwill Valuation Date of October 31, 2020, the Company performed an impairment test and recorded an impairment of $3.7 million in Socotherm Americas (Argentina) CGU. The impairment of the DCGU goodwill is further discussed in note 27.

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 2020, the FVLCD of Bredero Shaw, Pipeline and Pipe Services Products and Socotherm Americas (Argentina) GCGUs were lower than the respective carrying amount and as such goodwill impairments have been recorded in 2020. 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)	**March 31 2020**	**October 31 2020**	October 31 2019
Bredero Shaw	**11%**	**11%**	11%
Shawcor Inspection Services	**14.5%**	**14.5%**	14.5%
Flexpipe Systems	**12%**	**12%**	12%
ZCL Composites Inc.	**10%**	**10%**	10%
Socotherm Americas (Argentina)	**18%**	**19%**	18%
DSG-Canusa GmbH	**12%**	**12%**	12%
Pipeline and Pipe Services Products	**14%**	**14%**	14%
Lake Superior	**12%**	**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.

25 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, 2020 (2019 – 43%), which is being accounted for using equity accounting.

In the first quarter of 2020, the Company received $8.9 million of proceeds pertaining to the partial redemption of the investment in Zedi. In the third and fourth quarter of 2020, the Company recorded an additional gain of $8.2 million and $2.1 million, respectively. The Company also received $4.8 million of proceeds pertaining to the continued redemption of the investment in Zedi in the fourth quarter of 2020.

During the second quarter of 2019, Zedi disposed of its software and automation businesses which represented a substantial part of its operations and as a result, 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.

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.

26 Other Assets

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

(in thousands of Canadian dollars)	**December 31 2020**	December 31 2019
Long-term prepaid expenses	**$ 2,854**	$ 3,046
Accrued employee future benefit asset (note 17)	**412**	2,350
	$ 3,266	$ 5,396

27 Impairment

The following table sets forth the Company's impairment charges for the year ended December 31, 2020 and 2019:

(in thousands of Canadian dollars)	**Shawcor Inspection Services**	**Pipeline and Pipe Services Products**	**Composite Production Systems**	**Total**
Impairment of property, plant and equipment	**$ –**	**$ 7,208**	**$ 9,828**	**$ 17,036**
Impairment of intangible assets	**46,039**	**2,208**	**–**	**48,247**
Impairment of goodwill	**–**	**147,329**	**–**	**147,329**
Total Impairment for the year ended December 31, 2020	**$ 46,039**	**$ 156,745**	**$ 9,828**	**$ 212,612**

(in thousands of Canadian dollars)	Shawcor Inspection Services	Pipeline and Pipe Services Products	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 for the year ended December 31, 2019	$ 90,919	$ 13,184	$ 104,103

2020

The Company reviews its long-lived assets for impairment whenever events or circumstances indicate potential impairment. In the first quarter of 2020, due to the uncertain business climate brought about by COVID-19 and the turmoil in the energy markets, the Company experienced measurement uncertainty and exercised significant judgements and estimates and conducted a review of its impairment testing on property, plant and equipment, intangible assets and goodwill as at March 31, 2020. As a result of this exercise, the Company's estimated future operating cash flows were impacted and the Company determined certain impairment triggers had occurred for Shawcor Inspection Services, Pipeline Performance Group and Composite Production Systems.

Impairment Testing for the Socotherm Americas (Argentina) ("SACGU")

The Company performed an impairment test for its SACGU as at October 31, 2020. This impairment was assessed due to the current decline in drilling and completion activity and lower forecasted future operator spending in South America. The Company assessed its future expected cash flows and recorded an impairment of $3.7 million on its goodwill and $2.2 million on its intangible assets in the fourth quarter of 2020.

Impairment Testing for the Shawcor Inspection Services Cash-Generating Unit ("DCGU")

The Company performed an impairment test for its DCGU as at March 31, 2020. 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 assessed its future expected cash flows and recorded an impairment loss of $46.0 million on its intangible assets in the first quarter of 2020.

Impairment Testing for the Pipeline Performance Group Cash-Generating Unit ("BSCGU")

The Company recorded a $3.6 million impairment charge on building, machinery and equipment at two U.S. land pipe coating plants for the first quarter ended March 31, 2020. 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. Due to the value-in-use ("VIU") being lower than the carrying amount, 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 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.

The Company recorded a goodwill impairment loss of $143.6 million for its BSCGU as at March 31, 2020. This impairment was assessed due to the current decline in oil and gas demand which has significantly reduced onshore drilling and completion activity and has delayed the sanctioning of major offshore projects. The Company has adjusted its forecasts to reflect the current market conditions of the industry, thereby impacting the future cash flows. The FVLCD was higher than its VIU. The carrying value of the goodwill was $204.4 million. As a result of the assessed impairment, the carrying value of goodwill was reduced to $60.8 million as at March 31, 2020. A discount rate of 11.0% was applied to the goodwill impairment test as at March 31, 2020, along with a terminal value growth rate of 3.0%.

Impairment Testing for Composite Production Systems

The Company recorded a $9.8 million impairment charge on machinery and equipment related to certain assets of its large diameter product line in its Composite Production Systems segment as at March 31, 2020. This impairment was assessed due to the current decline in drilling and completion activity and lower forecasted operator spending in US shale plays and the associated demand for composite pipe product used in building new oil and gas gathering line pipelines. Due to the VIU being lower than the carrying amount, 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 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 Pipe Coating Facility

Due to the recent closure announcement of a pipe coating facility in Asia Pacific, the Company recorded a $3.6 million impairment charge in the third quarter of 2020 related to property, plant and equipment assets. 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 impaired.

Due to the VIU being lower than the carrying amount of the 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.

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 24, 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 a $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.

28 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 2020**	December 31 2019
Accounts payable	**$ 78,986**	$ 74,191
Accrued liabilities	**98,154**	103,261
	$ 177,140	$ 177,452

During the year, the Company incurred $32.6 million in restructuring costs. As of December 31, 2020, $14.0 million are included in accounts payable and accrued liabilities.

29 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, 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
Provision adjustments	(36)	910	3,220	4,094
Settlement of liabilities	(909)	(9,393)	(2,353)	(12,655)
Disposal	–	(308)	(444)	(752)
Accretion expense	254	–	–	254
Foreign exchange differences	(33)	(56)	(772)	(861)
Balance - December 31, 2020	**$ 21,848**	**$ 3,657**	**$ 10,746**	**$ 36,251**
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
December 31, 2020				
Current	**$ 7,441**	**$ 3,657**	**$ 7,296**	**$ 18,394**
Non-current	**14,407**	**–**	**3,450**	**17,857**
	$ 21,848	**$ 3,657**	**$ 10,746**	**$ 36,251**

Decommissioning Liabilities

The total undiscounted cash flows estimated to settle all decommissioning liabilities were $27.3 million as at December 31, 2020. 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)		
2021		**7,440**
2022		**54**
2023		**2,354**
2024		**1,724**
2025		**2,345**
Thereafter		**13,338**
	$	**27,255**

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.

30 Other Liabilities

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

(in thousands of Canadian dollars)		**Incentive-based Compensation (note 16)**		**Other Liabilities**		**Total**
Balance - December 31, 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
Adjustments		(1,947)		4,622		2,675
Settlement of liabilities		(4,234)		(1,423)		(5,657)
Foreign exchange differences		21		23		44
Balance - December 31, 2020	**$**	**6,922**	**$**	**5,327**	**$**	**12,249**
December 31, 2019						
Current	$	7,413	$	2,105	$	9,518
Non-current		5,669		–		5,669
	$	13,082	$	2,105	$	15,187
December 31, 2020						
Current	**$**	**3,729**	**$**	**705**	**$**	**4,434**
Non-current		**3,193**		**4,622**		**7,815**
	$	**6,922**	**$**	**5,327**	**$**	**12,249**

31 Long-term Debt and Credit Facilities

Credit Facilities

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

(in thousands of Canadian dollars)		December 31 2020		December 31 2019
Borrowings on credit facility	**$**	**438,000**	$	438,000
Deferred transaction costs		**(4,613)**		(2,538)
Total long-term debt	**$**	**433,387**	$	435,462
Standard letters of credit for financial guarantees, performance and bid bonds		**43,697**		36,940
Total utilized credit facilities	**$**	**477,084**	$	472,402
Total available credit facilities[(a)]		**723,355**		747,976
Unutilized Credit Facilities	**$**	**246,271**	$	275,574

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

On March 13, 2019, the Company renewed its syndicated credit facility (the "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. Prior to the amendments to the Credit Facility referred to below, the Company was required to maintain an Interest Coverage Ratio of not less than 3.00:1.00 and a Net Debt to Adjusted EBITDA covenant (the "Leverage Ratio") of not greater than 3.50:1.00. For calculating the 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").

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 Leverage Ratio (previously 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 incurred fees and expenses to implement these amendments of approximately $1 million in the first quarter of 2020.

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

- a removal of the requirement for a maximum Leverage Ratio for the fiscal quarter ended September 30, 2020 ("Q3 2020") and change in the maximum Leverage Ratio to:
  - 5.75 to 1.00 for the fiscal quarter ended December 31, 2020 ("Q4 2020")
  - 6.50 to 1.00 for the fiscal quarter ended March 31, 2021 ("Q1 2021")
  - 5.75 to 1.00 for the fiscal quarter ended June 30, 2021 ("Q2 2021")
  - 5.50 to 1.00 for the fiscal quarter ended September 30, 2021 ("Q3 2021")
  - 5.00 to 1.00 for the fiscal quarter ended December 31, 2021 ("Q4 2021")
  - 3.50 to 1.00 for all fiscal quarters thereafter;

- a removal of the requirement for a minimum Interest Coverage Ratio for Q3 2020 and a change in the minimum Interest Coverage Ratio to:
  - 2.25 to 1.00 for Q4 2020
  - 2.00 to 1.00 for Q1 2021
  - 2.25 to 1.00 for Q2 2021
  - 2.50 to 1.00 for Q3 2021
  - 2.75 to 1.00 for Q4 2021

- 3.00 to 1.00 for all fiscal quarters thereafter;

- for the purposes of the amended Leverage Ratio and Interest Coverage Ratio, EBITDA shall be calculated as follows:
  - For Q4 2020: (Q4 2020 EBITDA) x 4
  - For Q1 2021: (Q4 2020 EBITDA + Q1 2021 EBITDA) x 2
  - For Q2 2021: (Q4 2020 EBITDA + Q1 2021 EBITDA + Q2 2021 EBITDA) x 4/3
  - Thereafter, on a trailing 12 month basis;

- until receipt by the banking syndicate of reporting for the fiscal year ended December 31, 2020, the addition of a minimum monthly liquidity test, calculated as aggregate unrestricted cash held in lender's accounts plus undrawn availability under the Credit Facility, of $290 million;

- a requirement to provide a first priority security interest in favour of the banking syndicate against the majority of the personal property of the Borrowers and Guarantors under the Credit Facility; and

- increased interest rates and standby and other fees.

The Company has incurred fees and expenses of $2.4 million to date to implement these amendments.

The Company was in full compliance with financial covenants as at December 31, 2020.

32 Commitments and Contingencies

a) Legal Claims

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

b) Performance, Bid and Surety Bonds

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

The Company utilizes the Credit Facility to support its bonds. The Company has utilized total credit facilities of $43.7 million as at December 31, 2020 (2019 – $36.9 million) for support of its bonds. In addition, as at December 31, 2020, the Company had $54.7 million of outstanding surety bonds through insurance companies (2019 – $50.8 million).

33 Share Capital

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

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)		**2020**
Number of shares		
Balance - December 31, 2019		70,163,223
Issued on exercise of RSUs		268,488
Balance - December 31, 2020		**70,431,711**
Stated value		
Balance - December 31, 2019	$	710,563
Compensation cost on exercised RSUs		9,052
Balance - December 31, 2020	**$**	**719,615**

(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**

Dividends declared and paid were as follows:

(in thousands of Canadian dollars, except per share amounts)		**2020**		2019
Dividends declared and paid to shareholders	**$**	**10,546**	$	42,086
Dividends declared and paid per share	**$**	**0.150**	$	0.600

34 Consolidated Financial Statements

The comparative consolidated financial statements have been reclassified from consolidated financial statements previously presented to conform to the presentation of the 2020 consolidated financial statements in accordance with IFRS.