



**SHAWCOR LTD.**

**ANNUAL INFORMATION FORM**

For the Year Ended December 31, 2019

March 25, 2020

## TABLE OF CONTENTS

	<u>Page No.</u>
<b>Item 1 Notice Regarding Forward-Looking Information</b>	4
<b>Item 2 Corporate Structure</b>	6
2.1 Name, Address and Incorporation	6
2.2 Intercorporate Relationships	7
<b>Item 3 General Development of the Business 2017 – 2019</b>	8
3.1 Overview	8
3.2 Specific Highlights	10
<b>Item 4 Description of the Business</b>	
4.1 Overview	13
4.2 Business Segments	14
4.3 Segmented Information	17
4.4 Customers	18
4.5 Components, Raw Materials and Supply Matters	18
4.6 Intangible Properties	18
4.7 Seasonality and Cyclicity	19
4.8 Competitive Conditions in Principal Markets	19
4.9 Properties	19
4.10 Research and Development	21
4.11 Environmental Matters	22
4.12 Employees	22
4.13 Foreign Operations	22
4.14 Trends	23
4.15 Social and Environmental Policies	27
4.16 Risk Factors	28
<b>Item 5 Dividends</b>	37
<b>Item 6 Description of Capital Structure</b>	37
<b>Item 7 Market for Securities</b>	38

<b>Item 8</b>	<b>Directors and Officers</b>	
8.1	Name, Address, Occupation and Security Holdings as a Group	38
8.1.1	Directors	38
8.1.2	Officers	39
8.2	Cease Trade Orders, Bankruptcies, Penalties or Sanctions	41
<b>Item 9</b>	<b>Audit Committee</b>	41
<b>Item 10</b>	<b>Transfer Agent and Registrar</b>	42
<b>Item 11</b>	<b>Material Contracts</b>	43
<b>Item 12</b>	<b>Interests of Experts</b>	43
<b>Item 13</b>	<b>Additional Information</b>	43
<b>Schedule 1</b>	<b>Audit Committee Charter</b>	44

## **Item 1 NOTICE REGARDING FORWARD-LOOKING INFORMATION**

This document includes certain statements that reflect management's expectations and objectives for the Company's future performance, opportunities and growth, which statements constitute "forward looking information" and "forward looking statements" (collectively "forward looking information") under applicable securities laws. Such statements, other than statements of historical fact, are predictive in nature or depend on future events or conditions. Forward looking information involves estimates, assumptions, judgements and uncertainties. These statements may be identified by the use of forward looking terminology such as "may", "will", "should", "anticipate", "expect", "believe", "predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward looking information in the Trends Section and elsewhere in respect of, among other things, the increase in Flexpipe's global production capacity arising from the new manufacturing facility in the Middle East; the timing to complete certain pipecoating contracts; the impact of the COVID-19 pandemic as well as recent supply and demand changes in oil and gas on the Company's business and level of financial performance by segment and overall in 2020 and beyond; the completion of certain actions by the Company to further strengthen its balance sheet and the impact thereof; the likelihood that certain customer expenditures will be deferred, delayed or reduced; the likelihood that certain advanced stage and non-commodity price linked projects will continue to be sanctioned and advance in 2020 and beyond; high volatility of demand from the US land market and declining demand in Western Canada in the Company's Pipeline and Pipe services segment; the impact of the Company's efforts to expand the composite spoolable portfolio into larger diameters and into international markets; the effect of the Company's diversified portfolio of products on revenue and operating income; the demand for the Company's products in the Pipeline and Pipe Services, Composite Systems and the Automotive and Industrial segments of the Company's business; the sufficiency of the Company's resources, capacity and capital to meet market demand, to meet contractual obligations and to execute the Company's strategy; the sufficiency of the Company's processes and systems to operate its business and execute its strategic plan; the impact of global economic activity on the demand for the Company's products; the impact of changing supply, demand and prices for oil and gas on the level of industry investment in oil and gas infrastructure; the impact and likelihood of changes in competitive conditions in the markets in which the Company participates; the adequacy of the Company's existing accruals in respect of environmental compliance and in respect of litigation and tax matters and other claims generally; the Company's relationship with its employees and the level of payments under the Company's performance, bid and surety bonds.

Forward looking information involves known and unknown risks and uncertainties that could cause actual results to differ materially from those predicted by the forward looking information. We caution readers not to place undue reliance on forward looking information as a number of factors could cause actual events, results and prospects to differ materially from those expressed in or implied by the forward looking information. Significant risks facing the Company include, but are not limited to: the adverse impact on the Company, its customers and suppliers and on

overall global economic activity of the COVID-19 pandemic; the impact on the Company of reduced demand for its products and services, including the suspension or cancellation of existing contracts and including the impact thereof on the ability of the Company to satisfy its covenants to its lenders; the impact of declines in the global price of oil and gas; the extent and duration of automotive manufacturing plant shut downs and the impact of changing demand in that sector; long term changes in global or regional economic activity and changes in energy supply and demand; exposure to product and other liability claims; shortages of or significant increases in the prices of raw materials used by the Company; compliance with environmental, trade and other laws; political, economic and other risks arising from the Company's international operations; and fluctuations in foreign exchange rates, as well as other risks and uncertainties described under "Risks and Uncertainties" in the Company's annual MD&A and in the Company's Annual Information Form under "Risk Factors".

These statements of forward looking information are based on assumptions, estimates and analysis made by management in light of its experience and perception of trends, current conditions and expected developments as well as other factors believed to be reasonable and relevant in the circumstances. These assumptions include those in respect of the duration and severity of the COVID-19 pandemic, the stabilization of global oil and gas prices, continuing volatility in the automotive market, solid demand in the retail fuel market and stable demand in the European and North American industrial markets, the Company's ability to execute projects under contract, the continued supply of and stable pricing for commodities used by the Company, the continued availability of personnel resources sufficient for the Company to operate its businesses, the maintenance of operations in major oil and gas producing regions, the successful completion by the Company of planned activities to strengthen its balance sheet, the continued successful integration of the business and operations of ZCL, and the ability of the Company to satisfy all covenants under the Credit Facility. The Company believes that the expectations reflected in the forward looking information are based on reasonable assumptions in light of currently available information. However, should one or more risks materialize or should any assumptions prove incorrect, then actual results could vary materially from those expressed or implied in the forward looking information included in this document and the Company can give no assurance that such expectations will be achieved.

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

To the extent any forward looking information in this document constitutes future oriented financial information or financial outlooks, within the meaning of securities laws, such information

is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. Future oriented financial information and financial outlooks, as with forward looking information generally, are based on the assumptions and subject to the risks noted above.

## **CURRENCY**

All references in this document to “\$” are to Canadian dollars unless noted otherwise.

### **Item 2 CORPORATE STRUCTURE**

#### **2.1 Name, Address and Incorporation**

Shawcor Ltd. (“**Shawcor**” or the “**Company**”) was originally incorporated under the laws of Canada in 1968 as Shaw Pipe Industries Ltd. and was continued under the *Canada Business Corporations Act* in 1980 at which time it adopted the name Shaw Industries Ltd. Two subsidiaries, Shaw Pipe Protection Limited, which was originally incorporated in 1954, and ShawFlex Inc., which was originally incorporated in 1960, were amalgamated with the Company under the *Canada Business Corporations Act* effective January 1, 1991 and January 1, 1994, respectively. Effective May 4, 2001, the Company adopted its present name.

Additional amendments made to the articles of the Company since its amalgamation on January 1, 1994 include a subdivision of the Company’s outstanding shares on a three for one basis, effected in 1998; an amendment empowering the Board of Directors to appoint additional directors, effected in 2002; and the imposition of certain restrictions on the issuance of additional Class B Multiple Voting Shares, effected in 2004.

On March 20, 2013, the Company and Seaborn Acquisition Inc. amalgamated pursuant to a Plan of Arrangement. Pursuant to this Plan of Arrangement, the Company’s dual class share structure, which had consisted of Class A Subordinate Voting Shares (having one vote per share) and Class B Multiple Voting Shares (having ten votes per share), was eliminated and its authorized and issued capital now consists solely of common shares. Additional information concerning the Plan of Arrangement and the elimination of the Company’s dual class share structure is included in the Company’s management proxy circular dated February 11, 2013 which is filed on SEDAR at [www.sedar.com](http://www.sedar.com). Effective January 1, 2015, the Company amalgamated with its subsidiary, 9098658 Canada Inc., and immediately thereafter, the resultant company amalgamated with two subsidiaries, Flexpipe Systems Inc. and Shaw Pipe Protection Limited, in each case under the *Canada Business Corporations Act*. Effective April 2, 2019, the Company amalgamated with its subsidiary, ZCL Composites Inc., under the *Canada Business Corporations Act*.

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

Unless the context requires otherwise, the term “Company” herein refers to Shawcor and its subsidiaries.

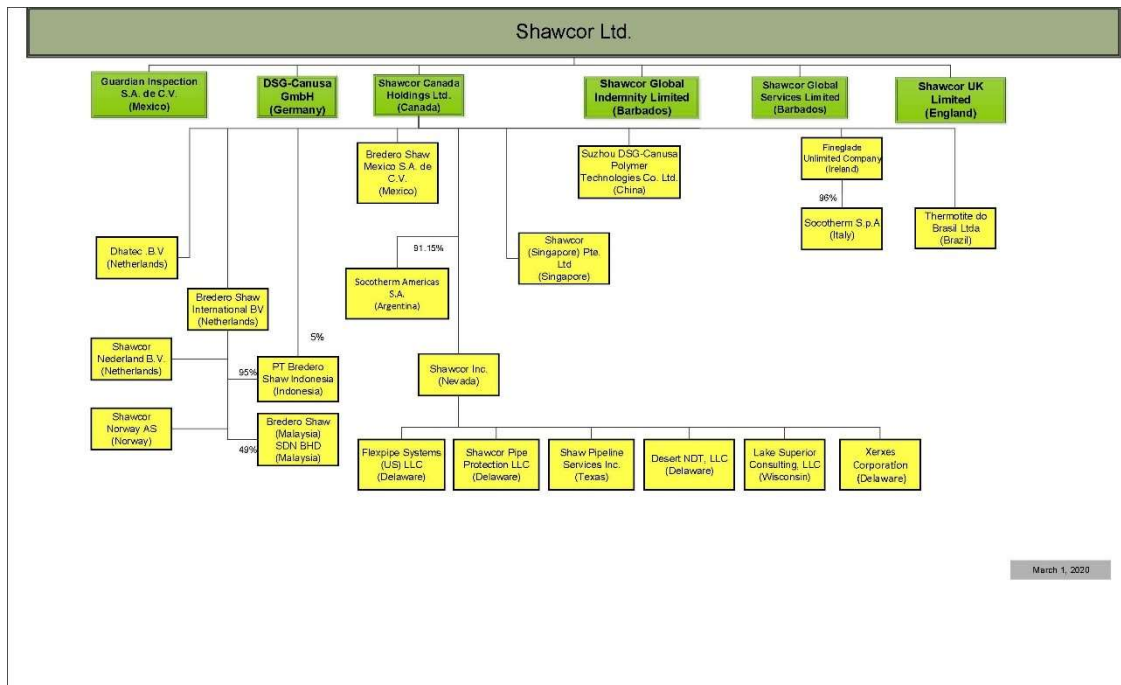
## 2.2 Intercorporate Relationships

### PRINCIPAL SUBSIDIARIES AND AFFILIATES

The following table lists the Company's principal subsidiaries and affiliates (affiliates being corporations in which Shawcor has a significant non-controlling equity interest) as at March 1, 2020 including the jurisdiction of incorporation and the percentage of voting securities held by Shawcor or its subsidiaries:

Name	Jurisdiction of Incorporation	Percentage Owned
Bredero Shaw (Malaysia) SDN BHD	Malaysia	49
Bredero Shaw International BV	The Netherlands	100
Bredero Shaw Mexico S.A. de C.V.	Mexico	100
Desert NDT, LLC	Delaware	100
Dhatec B.V.	The Netherlands	100
DSG-Canusa GmbH	Germany	100
Fineglade Unlimited Company	Ireland	100
Flexpipe Systems (US) LLC	Delaware	100
Guardian Inspection S.A. de C.V.	Mexico	100
Lake Superior Consulting, LLC	Wisconsin	100
PT Bredero Shaw Indonesia	Indonesia	100
Shaw Pipeline Services Inc.	Texas	100
Shawcor Nederland B.V.	The Netherlands	100
Shawcor (Singapore) Pte. Ltd.	Singapore	100
Shawcor Canada Holdings Ltd.	Canada	100
Shawcor Global Indemnity Limited	Barbados	100
Shawcor Global Services Limited	Barbados	100
Shawcor Inc.	Nevada	100
Shawcor Norway AS	Norway	100
Shawcor Pipe Protection LLC	Delaware	100
Shawcor UK Limited	England	100
Socotherm Americas S.A.	Argentina	91
Socotherm S.p.A.	Italy	96
Suzhou DSG-Canusa Polymer Technologies Co. Ltd.	China	100
Thermotite do Brasil Ltda	Brazil	100
Xerxes Corporation	Delaware	100

The following chart illustrates the ownership structure of Shawcor and its principal subsidiaries and affiliates as at March 1, 2020:



### **Item 3 GENERAL DEVELOPMENT OF THE BUSINESS, 2017 - 2019**

#### **3.1 Overview**

During the period 2017 - 2019, the Company continued its growth and diversification strategy with its three segments of Pipeline and Pipe Services, Composite Systems and Automotive and Industrial (formerly Petrochemical and Industrial) in the markets of Infrastructure, Energy and Transportation.

Except for one large pipe coating project in Mexico in 2017, the Company has experienced low demand in its pipe coating business during the period of 2017-2019 as a result of limited sanctioning of international and offshore projects during this time. Despite this lower activity in pipe coating, the Company was able to deliver positive results in 2018 and 2019 as result of a diversified portfolio of products and services related to North American drilling and completion activity and increased capacity in the Automotive and Industrial segment. The 2019 results were impacted by lower demand in US land in 2019 resulting from our customers' continued focus on capital discipline, partially offset by the acquisition of ZCL Composites Inc. during the year and its stable demand for composite tanks in the retail fuel market.

In 2017, consolidated revenue increased by \$357 million, or 30% from 2016, to \$1.57 billion but remained below 2015 levels. The increase was due to an increase of \$350 million in the Pipeline and Pipe Services segment and an increase of \$7 million in the Petrochemical and Industrial (now Automotive and Industrial) segment. In the Pipeline and Pipe Services segment, revenue benefitted primarily from higher activity from large pipe coating projects in Latin America and Asia Pacific. In particular, the Company successfully completed the pipe coating work for the Sur de Texas – Tuxpan project in Altamira, Mexico. In addition, revenue was positively impacted by the

increased demand in North America for the Company's Pipeline and Pipe Services products and services resulting from higher drilling and completion activity compared to the prior year. This was partially offset by lower revenues in the EMAR region from the continued deferral of capital spending on new pipeline infrastructure and the lower activity levels for the Shah Deniz project compared to 2016. In the Petrochemical and Industrial segment, revenue increased due to higher heat shrink tubing product sales, particularly in the automotive sector, partially offset by lower activity levels for wire and cable products. Income from operations increased to \$127.9 million in 2017 from a \$171.1 million operating loss in 2016, primarily due to the increase in gross profit of \$192.9 million from higher revenues and a reduction in impairment charges of \$149.2 million, partially offset by higher SG&A expense and amortization of property, plant and equipment. Net income (attributable to shareholders of the Company) also increased to \$71.3 million, or earnings per share of \$1.02 on a fully diluted basis, in 2017 versus a net loss of \$181.0 million or (\$2.80) per share in 2016.

In 2018, consolidated revenue decreased by \$157 million, or 10% from 2017, to \$1.41 billion. The decrease was due to a decrease of \$164 million in the Pipeline and Pipe Services segment, partially offset by an increase of \$8 million in the Petrochemical and Industrial (now Automotive and Industrial) segment. In the Pipeline and Pipe Services segment, revenue decreased primarily due to lower large project activity in Latin America and decreased activity levels in the Asia Pacific and EMAR regions, partially offset by higher revenue levels in North America from continued demand for composite pipe technologies, pipe coating products and integrity management field services. In the Petrochemical and Industrial segment, revenue increased due to higher heat shrink tubing product sales in EMAR and North America, particularly in the automotive sector, partially offset by lower activity levels for wire and cable products. Income from operations decreased to \$50.6 million in 2018 from \$128.0 million in 2017, primarily due to the \$151.4 million decrease in gross profit. The decrease in gross profit was due to the lower revenues and gross margins, primarily resulting from lower large project activity in Latin America. This was partially offset by lower SG&A expense and amortization of property, plant, equipment and intangible assets in 2018. Net income (attributable to shareholders of the Company) also decreased to \$25.9 million, or earnings per share of \$0.37 on a fully diluted basis, compared to \$71.2 million, or earnings per share of \$1.02 in 2017.

In 2019, consolidated revenue increased by \$81 million, or 6% from 2018, to \$1.49 billion. The increase was primarily due to a \$69.6 million or 20% increase in the Composite Systems segment which included the acquisition of ZCL Composites Inc. ("ZCL") in the second quarter of 2019. It also reflects increases of \$2.6 million in the Pipeline and Pipe Services segment and \$8.9 million in the Automotive and Industrial segment. In the Pipeline and Pipe Services segment, revenue increased primarily due to higher revenues in North America and EMAR, partially offset by lower revenue in Asia Pacific. In the Composite Segment, the revenue increase reflects the ZCL acquisition, partially offset by decreased activity levels in North America for composite pipe. In the Automotive and Industrial segment, revenue increased primarily due to increased shipments of wire and cable products in North America, partially offset by lower revenue in heat shrink tubing products, particularly in the automotive sector. Income from operations was a loss of \$46.4 million in 2019, a decrease compared to the \$50.6 million income in 2018. Operating loss in the year includes \$104.1 million of impairment charges, rework costs related to a quality issue at our

Channelview facility, a \$7.0 million decrease in gross profit, increases in amortization of intangible assets and ROU assets, and lower net foreign exchange gains. This was partially offset by a gain on the sale of land from the consolidation of the Company's footprint in Western Canada and a decrease in amortization of property, plant and equipment. Net loss (attributable to shareholders of the Company) in 2019 was \$33.3 million, or a loss per share of \$0.47 on a fully diluted basis, compared to net income of \$25.9 million, or earnings per share of \$0.37 in 2018.

During the three year period, the Company has continued to focus on implementing industry leading operational systems and processes and the development of new product innovations. In 2017, the Company developed a high temperature anticorrosion coating that is suitable for deepwater environments and expanded the capabilities of READDI (Remote Evaluation of Acquired Data During Inspection, now known as "Line Weld Advisor") a proprietary solution for the pipeline inspection industry that combines field technology and a cloud-based application. In 2018, the Company completed development of the High Definition Realtime Radiography scanners that expanded the range of pipe diameters and wall thicknesses that can be accommodated with this technology and the Company continued to develop higher pressure technology for its FlexFlow products. In 2019, the Company completed the development of a higher temperature and larger diameter FlexPipe Linepipe product that expands the operating window for our spoolable products and we continued to expand the capabilities of our Automated Ultrasonic Testers (AUT) for pipeline girth weld inspections.

In April 2019, Shawcor broadened its product offering through the acquisition of ZCL. ZCL is North American's largest manufacturer and supplier of environmentally friendly fibreglass, reinforced plastic underground storage tanks. Further particulars of the acquisition, which constituted a "significant acquisition" for purposes of National Instrument 51-102 – Continuous Disclosure Obligations, are set forth under section 3.2 "Specific Highlights – 2019".

Shawcor has continued its emphasis on employee safety through the Incident and Injury Free Program. Total recordable incidents due to injury declined from 6.2 incidents per million person hours in 2018 to 6.0 incidents per million person hours worked in 2019, and the Company's injury rate is significantly better than industry standards.

### **3.2 Specific Highlights**

Specific highlights in the development of the Company's business over the 2017 - 2019 period include:

#### **2017**

- In April 2017, the Company was awarded a contract in excess of C\$40 million from Marubeni-Itochu Tubulars Asia Pte Ltd, a 100% subsidiary of Marubeni-Itochu Steel Inc., to provide internal lining and three layer polyethylene anti-corrosion pipeline coating for Thailand's Fifth Transmission Pipeline project. This project is owned by PTT Public Company Limited, a Thai

state enterprise company. The pipeline will run through 8 provinces in Thailand and is aimed at reducing risk to the electrical power security and easing the delivery of gas from the LNG Terminal in Rayong, Thailand to the Western region. This contract was executed in Shawcor's coating facilities in Malaysia and completed in late 2018.

- In the fall of 2017, the Company commenced production and commercialization of its new "Flexflow" composite pipe product at its manufacturing facility in Calgary. The Flexflow product platform expands the Company's composite product offering to include larger diameter linepipe beginning with 6" and 8" versions.
- In the fall of 2017, the Company completed construction of a new pipe coating facility in Serra, Brazil. This facility is capable of applying "ULTRA", Shawcor's proprietary leading edge wet insulation solution, which is uniquely suited for offshore pipeline applications.

## **2018**

- In February 2018, the Company was awarded a contract with a value in excess of C\$50 million from the EEW Group to provide anti-corrosion and concrete weight coatings in connection with the replacement and upgrading of an offshore pipeline located in Qatar. The contract is being executed in Shawcor's coating facilities in Italy and is expected to be completed by the end of Q1 2020.
- In May, 2018, the Company's Flexpipe Systems division entered into a majority ownership joint venture with a local pipe installation company with the intent to set up a manufacturing facility in the Middle East. The total value of the joint venture's investment is expected to exceed USD\$20 million and the facility is expected to primarily serve the Middle Eastern, North African and Asia-Pacific markets. This facility is expected to increase Flexpipe's global production capacity of existing spoolable composite product by 30%, with flexibility to extend to a larger diameter range. First shipments from this new facility are expected in 2021.
- In October 2018, the Company announced that it had been assigned work from Saipem valued at approximately \$110 million to provide thermal insulation and anti-corrosion coating services for the Liza I and Liza II deepwater development projects located offshore Guyana. Coating work commenced in March 2018 at Shawcor's Channelview, Texas facility and additional work will be completed at Shawcor's Veracruz, Mexico facility. Work on Liza 1 was completed in late 2018. Coating work under the larger Liza II project is being executed at our Veracruz and Channelview facilities and is expected to be completed in Q2 2020.

## **2019**

- In March 2019, the Company entered into an amended credit facility with TD Bank and National Bank of Canada as co-lead arrangers and HSBC Bank Canada, JPMorgan Chase Bank, The Bank of Nova Scotia and Export Development Bank as lenders. The amended credit facility replaced Shawcor's prior credit facility and provides for a US\$500 million, four-year senior unsecured revolving facility. Shawcor also completed repayment on March 7, 2019 of

its Senior Notes debt, including accrued interest and make whole payment, in the amount of US\$205 million.

- In April 2019, Shawcor acquired all of the issued and outstanding shares of ZCL Composites (“ZCL”) for \$10 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 \$30 million. ZCL is North American’s largest manufacturer and supplier of environmentally friendly fiberglass reinforced plastic (or FRP) underground storage tanks. ZCL has two plants in Canada, four in the US and one in the Netherlands. ZCL services the fuel, water and wastewater and oil and gas markets. The Company filed a Form 51-102F4 – Business Acquisition Report in respect of this acquisition on SEDAR ([www.sedar.com](http://www.sedar.com)) on May 13, 2019.
- In May 2019, the Company’s pipe coating division was awarded a conditional contract with Sumitomo Corporation Europe Limited valued at approximately \$30 million to provide anti-corrosion and concrete weight coating services for the Greater BP Tortue Ahmeyim Phase 1A project development, located offshore Senegal and Mauritania, West Africa. The contract is scheduled to be executed from the Kabil, Indonesia facility during 2020.
- In June 2019, the Company’s pipe coating division entered into several contacts with an international EPC contractor to provide coating services for multiple offshore pipeline projects. Execution of these projects has commenced within Shawcor’s network of coating facilities, including Serra in Brazil, Orkanger in Norway and Channelview in the United States and is expected to be completed in 2020. Coating work under these contracts is valued at approximately CAD\$65 million.
- In October 2019, the Company’s pipe coating division entered into contracts with Subsea 7 to provide coating services for two offshore pipeline projects, the Johan Sverdrup Phase 2 project offshore Norway and a subsea tieback project offshore Australia. These projects will be executed at Shawcor’s Norwegian and Asia Pacific coating facilities during 2020. Coating works under these contracts are value in the range of \$30-\$50 million.
- In November 2019, the Company’s pipe coating division entered into a detailed letter of intent with Saipem for the proposed Payara development project located in the Stabroek block offshore Guyana. The coating value of this phase is estimated to be similar to the individual phases of the Liza development that have already been awarded. As previously announced, the combined coating value of Liza phase 1 and phase 2 was approximated at C\$110 million.

Subject to government approvals, project sanction by ExxonMobil subsidiary Esso Exploration and Production Guyana Limited and its partners HESS Guyana Exploration Ltd and CNOOC Nexen Petroleum Guyana Ltd, an authorization to proceed with the final phase, and execution of the definitive coating agreement, Shawcor will provide thermal insulation and anticorrosion coating services from its Veracruz, Mexico facility. Before the necessary government approvals and project sanction, the definitive contract is expected to allow a limited release of funds to enable procurement activities.

## **Item 4 DESCRIPTION OF THE BUSINESS**

### **4.1 Overview**

Shawcor is a growth oriented, global company with its three segments of Pipeline and Pipe Services, Composite Systems and Automotive and Industrial (formerly named Petrochemical and Industrial) serving various sectors of the Infrastructure, Energy and Transportation markets. . The Company operates through a global network of fixed and mobile manufacturing and service facilities and is valued for its integrity, technology and proven capability to execute the most complex projects in our industry.

As of December 31, 2019, the Company operated through eight operating units, with manufacturing and service facilities located around the world. These units operate within the three principal market segments described below.

#### **Pipeline and Pipe Services**

The Pipeline and Pipe Services segment, which is the largest segment of the Company, comprises the Pipeline Performance Group (formerly Bredero Shaw), Pipeline Performance Products (formerly Pipeline and Pipe Services Products), Shaw Pipeline Services, Shawcor Inspection Services and Lake Superior Consulting units. This segment carries on the following activities:

- Manufacture of 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.
- Manufacture of heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications; and the design and assembly of engineered pipe logistics products and services.
- Provision of ultrasonic and radiographic pipeline girth weld inspection services to pipeline operators and construction contractors worldwide for both onshore and offshore pipelines.
- Provision of non-destructive testing services for new oil and gas gathering pipelines and oilfield infrastructure integrity management services.
- Provision of pipeline engineering and integrity management services to major North American pipeline operators.

#### **Composite Systems**

The Composite Systems segment, formerly part of the Pipeline and Pipe Services segment, carries on the follow activities:

- Manufacture of 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.
- Manufacture and supply of fiberglass reinforced plastic underground storage tanks.

- Provision 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 (formerly the Petrochemical and Industrial segment), which consists of the Connection Systems division, produces the following products:

- DSG-Canusa brand heat shrinkable tubing, cold applied products and application equipment for the automotive, industrial, electrical distribution, telecommunications, and alternative energy markets.
- ShawFlex brand specialty instrumentation and control wire and cable for the industrial, power generation, electrical transmission, petrochemical processing and transportation markets.

The Company's operating units are described further below.

## **4.2 Business Segments**

### **Pipeline and Pipe Services**

#### **Pipeline Performance Group (formerly Bredero Shaw)**

The Pipeline Performance Group ("PPG"), with 24 plants, operates in most major energy producing markets and, in addition to these permanent facilities, employs its engineering expertise to install temporary, project-specific plants anywhere in the world. PPG's customers include major private and government-owned oil and gas producers, pipe mills, pipeline owners and pipeline construction contractors.

PPG's product offerings include specialized, proprietary internal and external corrosion protection systems, thermal insulation coating systems and concrete weight coating systems for onshore and offshore pipelines. PPG also has custom coating and field joint coating solutions. These coatings can be applied from several permanent locations, in the field, in a spool base or on a pipe lay vessel. Through its many regional locations, PPG can respond to customers' coating requirements regardless of which pipe supplier a customer might select. In addition, PPG has logistics capabilities that assist customers in reducing freight costs by allowing them to efficiently source and move pipe around the world.

#### **Pipeline Performance Products (formerly Pipeline and Pipe Services Products)**

Pipeline Performance Products' portfolio includes Canusa-CPS and Dhatec. Canusa-CPS develops, manufactures and markets heat shrinkable sleeves, adhesives, sealants and liquid coatings and devices for their application. Canusa-CPS' products are utilized in pipeline joint protection systems and girth weld corrosion protection applications worldwide. The division's expertise is in girth weld corrosion protection and sealing systems for onshore and offshore pipeline applications, high temperature pipeline products, specialty district heating and cooling

markets and custom coating and field joint applications. Dhatec designs, assembles and markets engineered pipe logistics products and services which mitigate damage and enhance safety and efficiency in the manufacturing, coating, handling, transportation, preservation and storage of pipe. Dhatec's products are used by companies in the oil and gas industry to assist them in organizing logistics for pipe transportation and storage in a safe and damage free manner and to avoid delays and extra costs resulting from damages and accidents that occur during handling. Pipeline Performance Products possesses considerable in-house research and development expertise that is utilized to develop new products which are introduced to customers through a global marketing program backed by a commitment to field and technical support.

Canusa-CPS and Dhatec service their markets through distribution and product finishing centers located in Alberta, Ontario, Texas, the Netherlands, the United Arab Emirates, China and Indonesia, in addition to manufacturing facilities in Ontario, the Netherlands and Alberta and contract manufacturing facilities in Poland and India. Canusa-CPS and Dhatec market and sell their products through direct sales and a global network of agents and distributors.

### **Shaw Pipeline Services**

Shaw Pipeline Services provides ultrasonic, radiographic and real time radiographic pipeline girth weld inspection services to pipeline construction contractors, owners and operators worldwide for both onshore and offshore pipeline applications from locations in Texas, Oklahoma, California, West Virginia, England and Scotland.

Shaw Pipeline Services has developed inspection and process control systems that satisfy required inspection specifications, meet engineering critical assessment criteria for weld evaluation and defect sizing, and provide rapid feedback of defects to the welding contractor, resulting in reduced repair rates.

### **Shawcor Inspection Services**

Shawcor Inspection Services provides nondestructive testing ("NDT") and inspection services for oil and gas gathering transmission and processing infrastructure. Shawcor Inspection Services operates from branch locations which cover all major shale production basins in the United States. Shawcor Inspection Services supports the new construction of gathering and transmission pipelines with radiographic and real time radiographic girth weld inspection services. Advanced NDT and inspection services and data management are also provided throughout the operational life of midstream assets to ensure on-going integrity.

The Shawcor Inspection Services team of technicians and inspectors primarily provide services directly to the midstream and exploration and production firms that own pipelines, tanks and processing facilities.

## **Lake Superior Consulting**

Lake Superior Consulting provides pipeline engineering and integrity management services to major North American pipeline operators from facilities in Minnesota, Texas, Nebraska, Kansas and Pennsylvania.

## **Composite Systems**

### **Composite Production Systems**

Composite Production Systems (formerly Flexpipe Systems) manufactures proprietary, flexible, corrosion resistant pipeline products under the “Flexpipe” brand, which are marketed primarily to oil and natural gas producers in Canada, the United States, Latin America, the Asia Pacific Region, the Middle East and North Africa. The division serves its customers through its manufacturing and distribution centre in Calgary, Alberta, and its sales offices and service depots in Alberta, Saskatchewan, Texas, Colorado, Utah, California and North Dakota. Flexible composite pipe offers customers a corrosion resistant, cost effective replacement for conventional steel pipe with reduced installation, lifecycle and land costs. These products are marketed and sold internationally through direct sales and a global network of agents and distributors.

In April 2019, Composite Production Systems added manufacturing and technology capability for composite tanks and 3D glass fabrics through the acquisition of ZCL/Xerxes. ZCL/Xerxes was North American’s largest fuel, water and oil and gas manufacturer of corrosion free composite storage tanks. With six tank manufacturing facilities across North America (Quebec, Alberta, Iowa, Maryland, Texas and California), Composite Production Systems now has logistical reach across North America for the fuel, water and oil & gas markets. In addition, the 3D glass fabric weaving manufacturing location in the Netherlands serves the global composite structure market.

### **Oilfield Asset Management (formerly Guardian)**

Oilfield Asset Management (“OAM”) is an oilfield asset and tubular management and services company to the upstream oil and gas industry in Canada and Mexico. OAM’s core business revolves around drill pipe, drill collars, drill tools, sucker rods, casing and production tubing, lined tubular installation and coating services. OAM’s services include in-plant and mobile inspection, repair, machining, manufacturing, recertification, pressure testing and web-based inventory management systems. OAM has a diversified customer base which includes drilling contractors, exploration and production (E&P) operators, equipment manufacturers and distributors, and rental companies.

Through Shawcor CSI Services, OAM offers services for internal and external tank coatings, tank rehabilitation coatings, plant shutdown and facility maintenance, pipeline integrity digs, girth weld coatings and pipeline coatings.

## **Automotive and Industrial**

### **Connection Systems**

Connection Systems' DSG-Canusa group is a global manufacturer of heat shrinkable and cold shrinkable products for mechanical and electrical insulation solutions. The division also manufactures application equipment and provides integrated systems of equipment and heat shrink products for automotive and industrial manufacturing. Each product meets or exceeds relevant automotive, defense, telecommunications, electrical utility, industrial or original equipment manufacturers' specifications for performance and safety. These products are sold direct to end-users or through distributors and agents throughout North America, Europe and Asia. The division supports its customers for these products through four manufacturing and distribution facilities located in Canada, the United States, Germany and China.

Connection Systems' ShawFlex group is a manufacturer of control, instrumentation and low voltage power cables for use primarily in industrial applications and its manufacturing facility is located in Toronto, Ontario. The division is a market leader in Canada with custom engineered and specialty products sold direct to end-users or through distributors and agents throughout North America. Its electrical products meet or exceed industry standards for performance and safety, such as those issued by the Canadian Standards Association and Underwriters Laboratories, and include proprietary products for numerous highly engineered applications. These products are used primarily in the North American nuclear and hydro power generation, oil and gas, mining, telecommunications and automation industries.

### **4.3 Segmented Information**

Revenues of each of the Company's operating segments expressed as a percentage of the Company's consolidated revenue for the years ended December 31, 2018 and 2019 are set out below:

<b>Operating Segment</b>	<b>% Revenue <sup>(1)</sup></b>	
	<b><u>2018<sup>(2)</sup></u></b>	<b><u>2019</u></b>
Pipeline and Pipe Services	61%	58%
Composite Systems	25%	28%
Automotive and Industrial	<u>14%</u>	<u>14%</u>
	100%	100%

(1) Net of inter-segment transfers.

(2) Restated to conform with current period presentation.

Reference is made to note 9 to the Company's consolidated financial statements for the years ended

December 31, 2019 and 2018, for detailed financial information for each operating segment. These financial statements are available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **4.4 Customers**

Through its diversified businesses, the Company serves a broad spectrum of customers in the energy industry and other industrial markets. Refer to Item 4.2 for a description of the markets and customers served. Generally, the activities of the Company as a whole are not dependent on any single customer or group of related customers.

#### **4.5 Components, Raw Materials and Supply Matters**

Shawcor purchases a broad range of materials and components throughout the world in connection with its manufacturing activities. Major items include polyolefin and other polymeric resins, iron ore, cement, adhesives, sealants, copper, fibreglass and other ferrous and non-ferrous wire. The ability of suppliers to meet performance and quality specifications and delivery schedules is critical to the maintenance of customer satisfaction and the success of our business but the Company is not dependent on any single source of supply. The current state of the global oil and gas market has caused volatility in pricing of major commodities. While the materials required for the Company's manufacturing operations have generally been readily available, cyclical swings in supply and demand can produce short-term shortages and/or price spikes, and the Company's ability to pass on such price increases may be restricted in the short term.

#### **4.6 Intangible Properties**

The Company utilizes patented and proprietary technology throughout its operations; however, the Company's activities are not dependent to a significant extent on any single or group of related patents, licences, franchises or concessions. The Company's activities are also not dependent on any single trademark, although some trademarks are identified with a number of the Company's products and services and are important in the sale and marketing of such products and services. It is the Company's policy to register or otherwise take the necessary steps to protect such intellectual property in all jurisdictions where it has significant operations, or where its major competitors have operations. The Company applied for 34 new patents in multiple jurisdictions in 2019 and currently holds 227 issued patents and 174 registered trademarks in respect of a number of its products and services in various jurisdictions where it carries on business. The Company's patents expire after a prescribed period has elapsed from the date of application or grant, generally 20 years in Canada and the United States, although the periods vary in other jurisdictions. Registered trademarks are generally renewed by the Company for as long as they remain in use. In most jurisdictions, the initial term for protection for registered trademarks is 10 years with an ability to renew for successive 10-year terms. In Canada, trademark registrations which issued or which were renewed prior to June 17, 2019 are subject to a 15-year term and trademark registrations which issued or were renewed on or after June 17, 2019 are subject to a 10-year term.

#### 4.7 Seasonality and Cyclicity

While the activities of some of the Company's individual businesses have seasonal fluctuations, total Company revenue is not significantly impacted by seasonal factors. Revenue from year to year is subject to substantial variation, however, as the Company's operations in the Pipeline and Pipe Services segment, representing 58% of the Company's consolidated revenue in 2019, are largely project-based, the nature and timing of projects can result in variability in the Company's financial results. The Composite Systems segment, representing 28% of the Company's consolidated revenue in 2019, is partially impacted by seasonality, i.e., composite tank sales, and partially impacted by cyclicity, i.e., composite pipe sales, which have a high correlation to land-based oil and gas drilling in North America. The Automotive and Industrial segment, representing 14% of the Company's consolidated revenue in 2019, is mildly impacted by seasonality, particularly in the auto industry. The primary driver of demand for the Company's products and services is the level of energy industry investment in infrastructure for hydrocarbon exploration, development and transportation around the globe. This investment, in turn, is driven by global levels of economic activity, current and forecasted oil and gas commodity prices, the impact of supply, demand and depletion within the hydrocarbon marketplace and the financial position of the major energy companies. All of these factors tend to be cyclical.

#### 4.8 Competitive Conditions in Principal Markets

The Company actively competes with other suppliers of similar products and services in each of its markets. It is not anticipated that there will be any significant changes in the level of competition in any of the Company's markets in the near term. Each of the Company's major divisions holds a leading market position with all such divisions enjoying a significant share of the markets served.

#### 4.9 Properties

The Company's businesses operate through the following manufacturing and service facilities:

<b>Location</b>	<b>Major Products or Services</b>	<b>Owned or Leased</b>
Camrose, Alberta (2 sites)	Pipe Coating	Owned
Edmonton, Alberta (2 sites)	Pipe Coating	Owned / Leased
Regina, Saskatchewan	Pipe Coating	Owned
Fontana, California	Pipe Coating	Leased
Channelview, Texas	Pipe Coating	Owned/Leased
Pearland, Texas	Pipe Coating	Leased
Escobar, Argentina	Pipe Coating	Owned
Valentin Alsina, Argentina	Pipe Coating	Leased
Baku, Azerbaijan Republic	Pipe Coating	Leased
Vitoria, Brazil	Pipe Coating	Leased
Kabil, Indonesia	Pipe Coating	Leased
Adria, Italy	Pipe Coating	Owned

Pozzallo, Italy	Pipe Coating	Owned
Portland, Oregon	Pipe Coating	Leased
Kuantan, Malaysia	Pipe Coating	Leased
Coatzacoalcos, Mexico	Pipe Coating	Leased
Monterrey, Mexico	Pipe Coating	Leased
Veracruz, Mexico	Pipe Coating	Leased
Orkanger, Norway	Pipe Coating	Owned
Ellon, Scotland	Pipe Coating	Leased
Leith, Scotland	Pipe Coating	Leased
Ras Al Khaimah, UAE	Pipe Coating	Leased
Bergeijk, Netherlands	Pipeline Logistics	Leased
Sherwood Park, Alberta	Pipeline Logistics	Leased
Toronto, Ontario	Connection Systems	Owned
Cincinnati, Ohio	Connection Systems	Leased
Suzhou, China (2 sites)	Connection Systems	Leased
Rheinbach, Germany	Connection Systems	Owned
Burks Falls, Ontario	Corrosion Protection Products	Leased
Huntsville, Ontario	Corrosion Protection Products	Owned
Toronto, Ontario	Corrosion Protection Products	Owned
Abu Dhabi, UAE	Corrosion Protection Products	Leased
Brighton, Colorado	Integrity Management	Leased
Overland Park, Kansas	Corporate Development & Solutions	Leased
Duluth, Minnesota	Corporate Development & Solutions	Leased
Carlsbad, New Mexico	Integrity Management	Leased
Omaha, Nebraska	Corporate Development & Solutions	Leased
Williston, North Dakota	Integrity Management	Leased
Elk City, Oklahoma	Integrity Management	Leased
Henryetta, Oklahoma	Integrity Management	Leased
Tulsa, Oklahoma	Integrity Management	Leased
Pittsburgh, Pennsylvania	Corporate Development & Solutions	Leased
Abilene, Texas	Integrity Management	Leased
Fort Worth, Texas	Integrity Management	Leased
Houston, Texas	Integrity Management	Leased
Perryton, Texas	Integrity Management	Leased
Pharr, Texas	Integrity Management	Leased
Poteet, Texas	Integrity Management	Leased
Norfolk, England	Integrity Management	Leased
Alness, Scotland (2 sites)	Integrity Management	Owned / Leased
Calgary, Alberta (5 sites)	Composite Pipe Systems	Leased
Clairmont, Alberta	Composite Pipe Systems	Leased

Estevan, Saskatchewan	Composite Pipe Systems	Leased
Grand Junction, Colorado	Composite Pipe Systems	Leased
Dickinson, North Dakota	Composite Pipe Systems	Owned
Big Wells, Texas	Composite Pipe Systems	Leased
Ennis, Texas	Composite Pipe Systems	Leased
Midland, Texas (2 sites)	Composite Pipe Systems	Owned/Leased
Myton, Utah	Composite Pipe Systems	Leased
Brisbane, Australia	Composite Pipe Systems	Leased
Edmonton, Alberta (4)	Composite Pipe Systems	Owned/Leased
Drummondville, Québec	Composite Pipe Systems	Owned
Tipton, Iowa	Composite Pipe Systems	Owned
Anaheim, California (2)	Composite Pipe Systems	Leased
Seguin, Texas	Composite Pipe Systems	Leased
Williamsport, Maryland	Composite Pipe Systems	Leased
Helmond, Neth	Composite Pipe Systems	Leased
Minneapolis, Minnesota	Composite Pipe Systems	Leased
Brooks, Alberta	Tubular Inspection Services	Leased
Dimsdale, Alberta	Tubular Inspection Services	Owned
Edmonton, Alberta	Tubular Inspection Services	Leased
Lloydminster, Alberta	Tubular Inspection Services	Leased
Nisku, Alberta (3 sites)	Tubular Inspection Services	Owned/Leased
Provost, Alberta	Tubular Inspection Services	Leased
Red Deer, Alberta	Tubular Inspection Services	Owned/Leased
Charlie Lake, British Columbia	Tubular Inspection Services	Owned
Estevan, Saskatchewan	Tubular Inspection Services	Owned / Leased
Villahermosa, Mexico	Tubular Inspection Services	Leased

Except for the pipe coating facility in Adria, Italy, none of the Company owned plants are subject to mortgages. The Company considers that these properties are in good condition, well maintained and generally suitable and adequate to carry on the Company's activities.

#### **4.10 Research and Development**

The Company conducts its own research activities and product development programs and provides product and process-oriented engineering services for its business units. The Company's divisions and the corporate R&D group possess considerable in-house technical expertise that is utilized to develop new products which are introduced to customers through technology-based marketing programs backed by a commitment to field and technical support. The Company also collaborates/partners with third parties, such as universities and technical institutions and through equity-based investments in technology based companies such as Vintri and Zedi, to support and enhance our core product offering and long term growth strategy. Approximately \$12.6 million

was spent on research and development during 2019, compared to \$11.9 million in 2018, and the Company applied for 34 new patents in multiple jurisdictions in 2019. In addition, the Company routinely incurs costs in its production facilities to develop and prototype new products, which are not included in research and development expenses. In 2019, the Company completed the development of a higher temperature and larger diameter FlexPipe Linepipe product that expands the operating window for our spoolable products and we continued to expand the capabilities of our Automated Ultrasonic Testers (AUT) for pipeline girth weld inspections.

The Company will continue ongoing research and development programs directed towards new or enhanced products, services and processes.

#### **4.11 Environmental Matters**

The Company designs and operates its plants and processes in compliance with federal, provincial, state, local and applicable foreign requirements regulating the discharge of substances into the environment and relating to the protection of the environment and the Company monitors compliance with these environmental requirements through an on-going audit program.

The Company's total environmental remediation costs paid in 2019 were \$1.22 million (\$435 thousand in 2018) and, as at December 31, 2019, the accruals on the Company's financial statements related to environmental matters and included as decommissioning liabilities were \$24.1 million (\$30.7 million in 2018). The Company believes the accruals to be sufficient to satisfy its estimate of all liabilities related to known environmental matters.

The Company cannot predict the changes that may be made to environmental requirements in the future although it anticipates that such requirements generally will become more stringent. In this regard, the Company's capital and operating costs for environmental controls may increase in the future. In 2019, the impact of increasing environmental requirements did not have a material effect on the Company's capital and operating costs and, in the future, is not expected to have a material effect on the earnings or competitive position of the Company.

#### **4.12 Employees**

In total, the Company employed an average of 5,887 permanent and contract personnel during 2019. The Company's divisions had domestic and foreign labour union contracts which covered an estimated 1,145 employees during 2019. These contracts have various expiry dates ranging from 2020 to 2022. The Company believes that relations with its employees have been satisfactory and does not anticipate any unusual difficulties in renegotiating these contracts on reasonable terms.

#### **4.13 Foreign Operations**

The Company conducts its international operations through various operating subsidiaries in the locations described in Item 4.9 "Properties". Additional subsidiaries and joint ventures may be established from time to time when a corporate presence is needed to conduct business in other jurisdictions. International operations are necessarily subject to various risks, some of which are

different from those found in Canada. For further information, refer to Item 4.16 “Risk Factors”. The Company’s production costs are affected by conditions prevailing in the countries in which its production facilities are located. The Company is exposed to currency exchange risks in the transfer of goods and services between countries. The Company’s production costs, profit margins and competitive position may be affected by the strength of the currencies in the countries where it manufactures goods relative to the strength of the currencies in the countries where its goods are sold. The Company maintains a hedging program utilizing foreign currency forward contracts.

Revenues from each of the geographic regions in which the Company operates, expressed as a percentage of the Company’s consolidated revenue, for the years ended December 31, 2018 and 2019 are set out below:

<b>Geographic Segment</b>	<b>% Revenue</b>	
	<b><u>2018</u></b>	<b><u>2019</u></b>
North America	67%	68%
Latin America	8%	8%
Europe, Middle East, Africa, Russia	18%	21%
Asia Pacific	<u>7%</u>	<u>3%</u>
	100%	100%

Reference is made to note 9 to the Company’s consolidated financial statements for the years ended December 31, 2019 and 2018, for detailed financial information for each geographic segment. These financial statements are available at [www.sedar.com](http://www.sedar.com).

Currency fluctuations also affect the Company’s consolidated financial results due to the translation of the foreign operations’ financial results into Canadian dollars. Refer to the Company’s Management’s Discussion and Analysis for the year ended December 31, 2019, which is available at [www.sedar.com](http://www.sedar.com), for a description of the impact of the translation of foreign operations’ financial results into Canadian dollars during 2019.

The assets and liabilities of self-sustaining foreign operations are translated into Canadian dollars at year-end exchange rates. Income and expense items are translated at the average exchange rates prevailing at the dates of the transactions. Foreign exchange gains or losses resulting from these translations are credited or charged to the cumulative translation account on the consolidated balance sheet.

#### **4.14 Trends**

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

energy generation.

Until March 2020, the Company expected annual results for 2020 to be higher than 2019 results, as a result of stable demand for our products and services in the North America upstream and midstream markets, higher pipe coating activity from orders secured to date and expected success in winning new awards in the coming quarters and solid demand for our non-commodity based businesses of retail fuel composite tanks and automotive and industrial products.

Recently, it has become apparent that the Company will be negatively impacted by the uncertainty and expected market slowdown caused by the COVID-19 pandemic and recent changes in oil and gas supply and demand that are expected to reduce capital investments by operators. This negative impact will be seen immediately in North American upstream markets, where demand for the Company's products and services is expected to experience a substantial decline, and also in certain facilities and field operations, across the Company, which may see interruptions and suspensions due to regional and global health restrictions.

The Company is undertaking a series of measures to address the negative impact of the COVID-19 pandemic and recent changes in oil and gas supply and demand. These measures will include the acceleration of already planned plant closures, exiting of expected low profitability markets, selling of select businesses and assets and additional reductions to our working capital and fixed cost structures, all designed to further strengthen the Company's balance sheet.

The Company expects that the effects of the pandemic and the decline in oil and gas markets will have the greatest negative impact on the Company in the second quarter and that the Company will see improved performance in the second half of the year as the effects are expected to ease and production is expected to increase to address delayed work that has built up. Additionally, the Company expects that its late cycle pipe coating business will execute work that has been secured, is planned to commence late in the second quarter and will run throughout the second half of the year and into 2021.

The Company is engaged in discussions with its customers on their capital spending programs and it is expected that there will be reductions, delays and deferrals of programs and projects. However, projects that are already in advanced stages, have low break-even thresholds or have parameters that are not directly tied to commodity prices, such as domestic energy needs and/or energy security, are expected to move forward.

Although the Company now expects, based on the above-noted factors, that annual results for 2020 will be lower than in 2019, the Company continues to believe that its diversified portfolio of products and services, work already secured and its competitive position to secure work that is expected to go ahead, will assist greatly in mitigating the current headwinds and will enable the Company to maintain its core offering until the global economy and oil and gas capital spending stabilizes.

### **Pipeline and Pipe Services Segment**

The demand for the Pipeline and Pipe Services segment is heavily tied to the spending programs of exploration and production operators in North America and international and offshore markets.

In the U.S. land market, demand for our small diameter coating and girth weld inspection services is expected to be very volatile in 2020 as operators adjust to a forecast extended period of low pricing for their products. Adjustments are expected to result in a substantial reduction in capital and operating budgets. In Western Canada, the Company expects that recent commodity price weakness will result in a further decline in demand for the Company's products and services from an already severely suppressed level.

The Company continues to expect that the international and offshore markets will be supportive as late cycle projects move forward. Based on the current level of bids outstanding and the success the Company has experienced in securing work with Engineering-Procurement-Construction ("EPC") companies conditional on Final Investment Decisions ("FID"), the Company believes that it is likely that certain projects, that are supported by factors that are not directly tied to commodity prices, will be sanctioned this year. In the near term, project activity in the first quarter of 2020 ramped up at our Channelview (Texas), Indonesia and Norway facilities and preparations have begun to restart our facilities in Scotland, UAE and Brazil for the execution of booked orders in the second quarter.

The Company has reviewed its global footprint, pipe coating capabilities and strategic core positioning in this segment in light of recent economic and industry dynamics and is undergoing a process to match resources with forecasted demand. In 2020, this will result in actions that will include the exiting of poor markets, the shuttering of sites and the removal of non-revenue related cost and capital spending.

The Company believes that secured work will continue to move forward and that a reduced structure will allow the segment to be profitable in 2020 and the year to follow.

### **Composite Systems Segment**

Market demand for composite pipe products in North America is closely tied to well completions, while demand for OCTG pipe inspection and refurbishment services is more aligned with drilling activity in Western Canada. Similar to the Pipeline and Pipe Services segment, the oil and gas related businesses of the Composite Systems segment are expected to decline as they experience high volatility in US land and no growth in Western Canada. The Company believes its efforts to expand the composite spoolable portfolio into larger diameters and into international markets will partially mitigate some of this decline.

The demand for composite tank products is delinked from the dynamics of the oil and gas markets and is expected to remain solid throughout 2020. We expect that retail fuel market demand for underground storage tanks will remain strong in 2020, supported by North America commercial and convenience store construction, and will experience the normal seasonal profile of lower revenues in the first quarter. There may be some volatility due to production restrictions in some facilities due to health driven constraints but overall this impact should be mitigated over the full year. The Company continues to focus on expanding its addressable market in the water storage/treatment tanks market and early signs are encouraging in this area.

The Company believes that the segment will continue to be profitable as demand for below ground tank storage will remain strong and actions to reduce structure and market expansion will partially offset the expected decline in pipe demand.

### **Automotive and Industrial Segment**

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

The Company expects demand drivers for automotive and industrial related products to be flat for the full year 2020, however some short-term volatility is expected due to the impact of the COVID-19 pandemic in the first quarter and into the second quarter of the year. Results are expected to be driven by growth in global automotive market share, demand for integrated systems and increases in electronic content and electric vehicle adoption.

### **Order Backlog**

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

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

#### **4.15 Social and Environmental Policies**

The following is the Company's Health, Safety and Environmental ("HSE") policy:

***"Shawcor's vision is an Incident and Injury Free workplace, with no harm to people, while protecting the environment."***

##### ***No Compromises on HSE***

- *Shawcor will never compromise its commitment to providing a safe and healthy workplace and conducting its business activities in a manner that protects the environment.*

##### ***Compliance***

- *As an HSE leader in the industry, Shawcor will hold itself to a higher standard that helps differentiate Shawcor in the marketplace and create a stronger HSE culture.*
- *Shawcor will meet or exceed the requirements of HSE laws and regulations applicable in the jurisdictions in which it operates.*

##### ***Culture***

- *Shawcor is committed to providing an environment that encourages a healthy lifestyle inside and outside of the workplace.*
- *Employees<sup>1</sup> at all levels must prioritize HSE in all work activities and business decisions.*
- *Shawcor is committed to eliminating and reducing risk to acceptable levels and will prioritize resources toward high-risk activities to prevent catastrophic harm.*
- *Employees at all levels are accountable for reducing the driving risk through compliance with applicable laws and Shawcor requirements to reduce and ultimately eliminate vehicle incidents.*

##### ***Shared Responsibility***

- *Success of our HSE process relies on management's commitment and active involvement of Employees.*
- *Each Employee has an obligation to report HSE incidents and workplace conditions or practices that pose a safety hazard or threaten the environment and take action to reduce or eliminate such risks.*
- *Employees are empowered to challenge and communicate any unsafe acts or conditions and STOP WORK as appropriate.*

##### ***Continuous Improvement***

- *Shawcor will set HSE performance objectives, measure results, assess and continually improve through the use of an effective HSE management systems.*
- *Shawcor builds a proactive HSE culture by providing education and training to Employees to empower them with the right skills, tools and behaviours to manage HSE risks. Employees' active participation and involvement in training are indispensable.*

*Violations of this policy will result in progressive discipline, up to and including termination of employment, and other remedies deemed appropriate by Shawcor to protect its interests.*

*Note: Employees refers to all Shawcor employees worldwide and all other persons acting on behalf of Shawcor.”*

The Company’s failure to comply with its HSE policy could result in a material, negative impact on the Company’s business and operations.

The Company has developed and implemented a robust system which is used by its divisions to implement this HSE policy. This system includes procedures and practices which are used throughout the Company as well as corresponding monitoring and auditing processes. In addition, the Board of Directors of the Company and its Audit Committee monitors the Company’s HSE performance at each of its regularly scheduled meetings.

The Company has developed a Code of Conduct (the “Code”) which states the underlying values and behaviours that must govern the behaviour of all directors, officers and employees. Beyond establishing standards of behaviours, the Code puts in place a program for reporting violations of Company policies. All salaried employees are required to sign a statement of compliance each year agreeing to follow the Code and indicating whether or not they are aware of any violations of the Code.

Specific items addressed in the Code include provisions dealing with compliance with quality, health, safety and environmental policies, discrimination/harassment/violence in the work environment, behaviour or conduct contrary to accepted standards or morality of the Company, foreign corrupt practices, improper payments, altering Company data, conflicts of interest, abuse of drugs and alcohol, securities trading, anti-trust/competition law compliance, and economic sanctions, export controls and anti-boycott rules. A copy of the Company’s Code of Conduct may be found at [www.Shawcor.com](http://www.Shawcor.com).

#### **4.16 Risk Factors**

**The Company may be adversely affected by public health crises and other events outside its control.**

Public health crises, such as epidemics and pandemics, acts of terrorism, war or other conflicts and other events outside of our control, may adversely impact our business and operating results. In addition to the direct impact that such events could have on our facilities and workforce, these types of events could negatively impact capital expenditures and overall economic activity in the impacted regions or depending on the severity, globally, which could impact the demand for the Company’s products and services. The recent outbreak of the novel coronavirus known as COVID-19 initially impacted access to and from, and overall economic activity in, parts of China and has since spread globally. To date, none of our production facilities has been materially adversely impacted by the outbreak. However, a prolonged continuance of this public health crisis, an increase in its breadth or in its overall severity, could adversely affect our workforce and components of our supply chain and materially and negatively impact the demand for our products and services should economic declines continue to impact the demand for oil and gas or otherwise

cause significant investment decisions to be delayed or postponed. A prolonged continuance of this public health crisis could also have a material adverse effect on overall economic growth and impact the stability of the financial markets and availability of credit. Any of these developments could have a material adverse effect on the Company's business, financial position, liquidity and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

reasonable and customary; however, such coverage may be inadequate for or inapplicable to particular claims.

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

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

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

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

The Company has various facilities that export products to the United States and other countries. Any changes to trade or tax laws, including delays in implementing amendments to the US – Mexico – Canada agreement that negatively impact the competitiveness of the Company's exports

or products could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

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

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

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

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

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

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

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

uncertainty, in turn, could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

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

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

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

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

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

The Company purchases a broad range of materials and components throughout the world in connection with its manufacturing activities. Major items include polyolefin and other polymeric resins, iron ore, cement, adhesives, sealants and copper and other nonferrous materials. The ability of suppliers to meet performance and quality specifications and delivery schedules is important to the maintenance of customer satisfaction. While the materials required for the Company's

manufacturing operations have generally been readily available, cyclical swings in supply and demand can produce short-term shortages and/or price spikes. The Company's ability to pass on any such price increases may be restricted in the short term.

**The Company operates in a number of markets where there are changing competitive dynamics that could adversely affect its market shares and operating margins.**

Certain market segments that are material to the Company's financial performance have mature technology characteristics and face commoditization threats. While the Company continually seeks to advance its technology and thus differentiate its products and services, there can be no assurance that it will not be subject to downward price pressures from competitors seeking to gain market share by providing lower priced offerings. The Company derives a material proportion of its revenue from offshore pipeline projects. Increasingly, the ability to maintain a direct relationship with the owner of the pipeline is impacted by the role of intermediaries such as engineering procurement and construction contractors who are contracted by the pipeline owner to procure the Company's products and services as part of a larger integration scope of work. Loss of direct interface with pipeline owners could impair the Company's ability to commercialize new products and differentiate its product offerings versus competitors.

**Potential acquisitions or investments in other companies may have a negative impact on the Company's business.**

The Company may seek to expand its business through acquisitions as it intends to consider and evaluate opportunities for growth through acquisitions when suitable acquisition targets present themselves; however, there can be no assurance that the Company will find attractive acquisition candidates in the future, or that the Company will be able to acquire such candidates on economically acceptable terms, if at all. Acquisitions may require substantial capital and negotiations of potential acquisitions and the integration of acquired operations could disrupt the Company's business by diverting management, and employees' attention, away from day-to-day operations. The difficulties of integration may be increased by the necessity of coordinating geographically diverse organizations, integrating personnel with disparate backgrounds and combining different corporate cultures.

At times, acquisition candidates may have liabilities or adverse operating issues that the Company fails to discover through due diligence prior to the acquisition. The Company may lack sufficient knowledge of the acquisition candidate's technology and market position to enable an effective evaluation of the acquisition economics or integration challenges. If the Company consummates any future acquisitions, the Company's business, capitalization, financial condition and results of operations may change significantly.

Acquisitions or investments may require the Company to expend significant amounts of cash, resulting in the Company's inability to use these funds for other business purposes. The potential impairment or complete write-off of goodwill and other intangible assets related to any such acquisition may reduce the Company's overall earnings and could negatively affect the Company's

balance sheet. The occurrence of any of the foregoing could have a material adverse effect on the Company's projections, business, and results of operations and/or financial condition.

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

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

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

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

**Exchange rate fluctuations are beyond the Company's control and could adversely affect its projections, business, and results of operations and/or financial condition.**

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 based 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.

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. With the exception of the Company's U.S. dollar based operations, the Company does not hedge translation exposures.

**The loss or failure to attract or retain key personnel could adversely affect its projections, business, and results of operations and/or financial condition.**

The Company's success depends in large part on its ability to attract and retain key management, engineering, scientific, marketing, and operating personnel. Recruiting personnel for the global energy services and oil and gas sector is highly competitive. The Company may not be able to continue to attract and retain qualified executive, managerial and technical personnel needed for its business. The failure to attract or retain qualified personnel could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

**Item 5 DIVIDENDS**

The declaration and payment of dividends are at the discretion of the Board of Directors. For many years the Board of Directors has maintained a stable dividend payment policy determined by reference to average net earnings over a period of years and the Company's overall financial standing. However, in response to the uncertainty and expected market slow down caused by the COVID-19 pandemic and recent changes in oil and gas supply and demand that have reduced capital investments by operators, the Company announced on March 16, 2020 that it would suspend its regular quarterly dividend until further notice, commencing in the second quarter of 2020. The dividend declared on February 27, 2020 will be paid as planned on March 31, 2020.

The following table summarizes dividends per share during the previous three years:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Common Shares	\$0.60	\$0.60	\$0.60

Shawcor and certain of its subsidiaries are parties to an amended and restated credit agreement dated March 13, 2019 in respect of a US\$500 million revolving credit facility (the "Credit Facility"). The Company's Credit Facility requires that, prior to (and after giving effect to) the payment of dividends, Shawcor must comply with certain financial covenants. The Company is and has been in compliance with such financial covenants at all relevant times. The Credit Facility was amended on February 27, 2020 to provide temporary relief from a financial covenant.

**Item 6 DESCRIPTION OF CAPITAL STRUCTURE**

The authorized capital of the Company consists of an unlimited number of common shares. Each common share entitles the holder thereof to one vote per share at meetings of Shareholders, to receive dividends if, as and when declared by the Board of Directors and to receive pro rata the remaining property and assets of the Company upon its dissolution or winding up.

## Item 7 MARKET FOR SECURITIES

The following are the monthly closing price ranges and volumes traded on the Toronto Stock Exchange for the Company's common shares for 2019:

<b>Month</b>	<b>Close</b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
January	20.27	20.27	17.33	2,245,797
February	20.68	21.03	19.55	1,947,428
March	20.01	22.29	19.98	2,547,918
April	19.88	21.27	19.76	1,786,484
May	17.33	19.68	17.33	2,138,486
June	18.32	18.32	17.11	1,424,399
July	17.28	18.11	17.00	1,625,025
August	16.65	18.36	15.99	3,295,267
September	15.26	16.87	15.26	2,257,751
October	13.26	14.98	13.26	2,344,241
November	12.86	14.00	11.85	4,502,792
December	12.53	12.86	12.12	3,076,302

## Item 8 DIRECTORS AND OFFICERS

### 8.1 Name, Address, Occupation and Security Holdings as a Group

#### 8.1.1 Directors

The following table sets out for each Director, as of the date hereof, his or her name, municipality of residence, principal occupation, committee membership and period during which he or she has served as Director:

<b><u>Name and Municipality of Residence</u></b>	<b><u>Director Principal Occupation</u></b>	<b><u>Since</u></b>
John Baldwin <sup>(3)</sup> London, England	Corporate Director	2010

Derek Blackwood <sup>(2)</sup> Houston, Texas, U.S.A.	Corporate Director	2011
Laura Cillis <sup>(1)</sup> Calgary, Alberta, Canada	Corporate Director	2019
James Derrick <sup>(3)</sup> Buffalo, New York, U.S.A.	Executive Chair, Derrick Corporation, a designer and manufacturer of solids control equipment used on deep oil and gas drilling rigs and mining and industrial processing equipment.	2007
Kevin Forbes <sup>(1)</sup> West Sussex, England	Corporate Director	2014
Michael Hanley <sup>(1)</sup> Mount-Royal, Quebec, Canada	Corporate Director	2015
Robert Mionis <sup>(2)</sup> Hampton, NH, U.S.A.	Chief Executive Officer, Celestica Inc., a global electronics manufacturing and service company	2018
Stephen Orr Toronto, Ontario, Canada	Chief Executive Officer, Shawcor Ltd.	2014
Pamela Pierce <sup>(2)</sup> Houston, Texas, U.S.A.	Executive Vice-President and Partner, Ztown Investments, a private oil and gas investment firm.	2014
E. Charlene Valiquette <sup>(1)(3)</sup> Pembroke, Ontario, Canada	Corporate Director	2005
Donald Wishart Calgary, Alberta, Canada	Corporate Director, Chair of the Board, Shawcor Ltd.	2015

(1) Audit Committee

(2) Compensation and Organizational Development Committee

(3) Nominating and Governance Committee

Directors are elected annually at each Annual Meeting of shareholders to hold office until the next Annual Meeting of shareholders or until their successors have been duly elected.

### 8.1.2 Officers

The following sets out for each executive Officer of the Company, his or her name, municipality

of residence and position with the Company as of the date hereof:

<b><u>Name and Municipality of Residence</u></b>	<b><u>Offices with Shawcor Ltd. and Principal Occupation</u></b>
Donald Wishart Calgary, Alberta, Canada	Chair of the Board, Shawcor Ltd.
Stephen Orr Toronto, Ontario, Canada	Chief Executive Officer
Gaston Tano Mississauga, Ontario, Canada	Senior Vice President, Finance and Chief Financial Officer
Darrell Ewert King City, Ontario, Canada	Corporate Secretary

During the past five years, all of the Company's Directors and Officers have held their present principal occupations or other positions as noted opposite their respective names except:

Derek Blackwood was the Chief Executive Officer of Vepica Group from September 2015 to June 2018. Prior to September 2015, Mr. Blackwood was a business consultant to Wood Group since his retirement from Wood Group in December 2013.

James Derrick was the Chief Executive Officer of Derrick Corporation from 1992 to 2017.

Darrell Ewert became the Corporate Secretary of the Company on June 1, 2018. From September 2016 to June 1, 2018 he was the Senior Vice-President, Legal & Secretary of the Company. Prior to September 2016, Mr. Ewert was the Vice-President, Corporate Affairs and Corporate Secretary of the Company.

Kevin Forbes was a partner in Epi-V LLP, a London, England based specialist oilfield technology investment company, from 2008 to 2017.

Robert Mionis was an operating partner in and senior advisor to Pamplona Capital, a private equity company, from 2013 to 2015.

Gaston Tano became Senior Vice President, Finance and Chief Financial Officer of the Company on May 1, 2017 after joining the Company as Vice President, Finance – Corporate in September 2016. From 2011 to 2015, Mr. Tano was the Executive Vice President and Chief Financial Officer of Spin Master Limited.

Donald Wishart became Chair of the Board of the Company in 2018 and became a director of the Company in 2015.

As at March 15, 2020, Directors and Officers of the Company as a group beneficially owned,

directly or indirectly, or exercised control or direction over 234,816 of the issued and outstanding common shares of the Company, being 0.33% of the outstanding common shares.

## **8.2 Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

To the best of the Company's knowledge, no Director or Executive Officer,

- (a) is, as at the date hereof or has been, within the 10 years before, a director, chief executive officer or chief financial officer of any company, that while that person was acting in that capacity,
  - i. was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or
  - ii. was subject to an event that resulted, after the Director or Executive Officer ceased to be a director, chief executive officer or chief financial officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days;
  
- (b) is, as at the date hereof or has been, within the 10 years before, a director or executive officer of any company, that while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
  
- (c) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the Director or Executive Officer.

To the best of the Company's knowledge, none of its Directors or Executive Officers has been subject to any penalties or sanctions imposed by a securities regulatory authority or by a court relating to securities legislation, has entered into a settlement agreement with a securities regulatory authority or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## **Item 9 AUDIT COMMITTEE**

The Audit Committee is appointed annually by and reports to the Board. The Committee consists of four members, M. S. Hanley - Chair, E. C. Valiquette, L. Cillis and K. J. Forbes, all of whom are independent directors and are considered by the Board to be financially literate as that term is defined by Canadian Securities Regulators. Mss. Valiquette and Cillis and Mr. Hanley are Canadian Chartered Professional Accountants. Mr. Forbes' 27 years of experience as a senior

executive with a leading global energy services company and his subsequent experience as a consultant and partner in an oilfield technology investment company have provided him with an understanding of accounting principles and their application, experience in analyzing and evaluating financial statements of energy services companies and an understanding of internal controls and procedures for financial reporting.

The integrity of the Company's internal control and management information systems are primarily the responsibility of management with oversight review by the Audit Committee, which meets regularly with both the Company's financial and accounting personnel and the Company's internal and external auditors to review these matters. The Audit Committee reports to the full Board with respect to any issues that arise out of such discussions.

Reviews are carried out of the work plans of both the external and the internal auditors, and the Committee meets regularly with the external and internal auditors without management present.

The Audit Committee reviews the annual and quarterly financial statements and management's discussion and analysis and recommends their approval to the Board. The Committee makes recommendations to the Board in respect of the external auditor to be proposed for appointment by the shareholders.

The following table discloses fees approved by the Audit Committee for the external auditors, Ernst & Young, for 2018 and 2019:

<b>Fees in Millions of Dollars</b>	<b>2018</b>	<b>2019</b>
Audit Fees	\$2.348	\$2.611
Audit-Related Fees	\$0.632	\$0.401
Tax Fees	\$0.018	\$0.045
All Other Fees	\$0.010	\$0.007
<b>Total</b>	<b>\$3.008</b>	<b>\$3.064</b>

A description of the services provided in connection with the "Audit-Related Fees" and "Tax Fees" is included in Appendix B to the Audit Committee Charter, attached as Schedule 1 to this AIF. The category of "All Other Fees" includes fees for tax services to expatriate employees and consulting services relating to subsidiary share structure and pension and compensation matters.

All non-audit services to be provided by the Company's auditors must be approved by the Audit Committee as outlined in the Audit Committee Charter. The complete Audit Committee Charter is attached as Schedule 1.

**Item 10 TRANSFER AGENT AND REGISTRAR**

The Company's transfer agent and registrar is AST Trust Company (Canada), located in Toronto, Ontario.

## **Item 11 MATERIAL CONTRACTS**

There were no contracts entered into by the Company since the beginning of 2019 or entered into prior to 2019 which remain in effect and which, in each case, are material and which were not entered into in the ordinary course of business, except for the following:

1. On January 20, 2019, the Company entered into an Arrangement Agreement to acquire the outstanding shares of ZCL Composites Inc. for \$10.00 per share in cash by way of a statutory Plan of Arrangement. The price per share implies an aggregate fully diluted equity value of for ZCL of approximately \$308 million. The transaction closed on April 2, 2019.
2. On March 13, 2019, the Company entered into a Credit Agreement with The Toronto Dominion Bank, National Bank of Canada, HSBC Bank Canada, JPMorgan Chase Bank, The Bank of Nova Scotia and Export Development Bank, which provides for a US\$500 million, four-year, senior unsecured revolving facility. This agreement was amended on February 27, 2020 to provide temporary relief from a financial covenant.

## **Item 12 INTERESTS OF EXPERTS**

Ernst and Young LLP is the Company's auditor and is independent of the Company within the meaning of the CPA Code of Professional Conduct of the Chartered Professional Accountants of Ontario.

## **Item 13 ADDITIONAL INFORMATION**

Additional information, including Officers' and Directors' remuneration and indebtedness, principal holders of voting shares and securities authorized for issuance under equity compensation plans, is included in the Company's Management Proxy Circular dated March 15, 2020. Additional financial information is provided in the Company's audited financial statements and Management's Discussion and Analysis for the year ended December 31, 2019. They may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Copies of these documents may be obtained upon request from the Senior Vice President, Finance and Chief Financial Officer, Shawcor Ltd., 25 Bethridge Road, Toronto, Ontario, Canada, M9W 1M7.

Additional information relating to the Company may also be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.Shawcor.com](http://www.Shawcor.com).

## SCHEDULE 1

August 10, 2016

### SHAWCOR LTD. AUDIT COMMITTEE OF THE BOARD OF DIRECTORS CHARTER

#### A. Authority

The Audit Committee of the Board of Directors operates under authority vested by the Board of Directors and reports to the Board. The Board's oversight of the integrity of the Company's internal control and reporting systems is primarily the role of the Audit Committee, and it should meet regularly with both the Company's financial and accounting personnel and the Company's internal and external auditors to review these matters and to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee generally reports to the full Board with respect to any issues that arise out of such discussions.

The Audit Committee reviews the quarterly financial statements and Reports to Shareholders prior to their release, and reviews the Company's annual consolidated financial statements and Management Discussion and Analysis and recommends their approval to the Board. The Committee oversees the qualifications and independence of the external auditor and makes recommendations to the Board in respect of the external auditor to be proposed for appointment to the shareholders.

The authority, composition and role of the Audit Committee of the Board of Directors should reflect the requirements of the Canada Business Corporations Act, the Toronto Stock Exchange, as well as the provincial Securities Acts and any other pertinent legislation with which Shawcor Ltd. must comply. Such authority, composition and role are:

#### B. Organization

- 1. Number and Qualifications** - Members of the Audit Committee and the Chair are appointed annually by the Board of Directors. The Audit Committee consists of such number of directors as the Board of Directors shall determine from time to time, all of whom should meet the independence and financial literacy requirements of the Toronto Stock Exchange, the provincial Securities Acts and the Canada Business Corporations Act (see Appendix A).
- 2. Quorum and Invitees** - A majority of the members of the Audit Committee shall form a quorum. Subject to invitation, meetings will usually include the CEO and the Vice President, Finance & CFO. Attendees may also include other directors, the external and internal auditor or other representatives and employees of the Company, as determined by the Audit Committee.

3. **Meetings** – Committee meetings shall be held at the call of the Chair of the Board, the Committee Chair, or upon the request of a majority of Committee members. It is anticipated that there will be a minimum of four meetings per year.

## **C. Role**

Management is responsible for preparing the Company's financial statements and other financial information, for the fair presentation of the information set forth in the financial statements in accordance with GAAP, for establishing, documenting, maintaining and reviewing systems of internal control and for maintaining the appropriate accounting and financial reporting principles and policies designed to assure compliance with accounting standards and applicable laws. The Audit Committee's role is one of oversight. The role of the Audit Committee includes but is not limited to:

### **1. Financial Information**

- 1) Reviewing with management and the auditors the annual financial statements of the Company, including, without limitation, the judgement of the external auditors as to not only the acceptability but also the quality and appropriateness of the Company's accounting principles as applied in its financial reporting, and reporting and recommending the financial statements to the Board of Directors for approval.
- 2) Reviewing any material change to the Company's accounting principles and practices as recommended by senior management or the external auditors or which may result from changes to applicable generally accepted accounting principles, including international financial reporting standards, where applicable.
- 3) Reviewing financial information (such as the Management Discussion and Analysis) to be included in all regulatory filings and other public disclosure (such as annual and quarterly financial statements, prospectuses, information circulars and annual and interim earnings press releases).
- 4) Reviewing quarterly results, reports to shareholders, any Management Discussion and Analysis and accompanying press releases, and making recommendations for approval to the Board.
- 5) Reviewing the use of any "pro forma" or adjusted information not in accordance with applicable generally accepted accounting principles, including international financial reporting standards, where applicable.

### **2. Relations with Auditors**

- a) Overseeing and evaluating the work of the external auditors, including the resolution of disagreements between management and the external auditors regarding financial reporting. The external auditors shall report directly to the Committee and the Committee should meet regularly with the internal and external auditors privately, without

management present.

- b) Reviewing and approving in advance the terms of engagement, audit fees and scope of the external audit and recommending to the Board the appointment and proposed audit fees of the external auditor.
- c) Reviewing and discussing with the external auditors all significant relationships that the external auditors and its affiliates have with the Company and its affiliates in order to seek to determine the external auditor's independence, including:
  - i. approving all non-audit assignments undertaken by the external auditors. Reviewing periodically the detailed policies and procedures dealing with pre-approved non-audit services. In addition, the Committee at its discretion may delegate pre-approvals of other non-audit services to the Chair of the Committee, subject to ratification by the full Committee at the next scheduled meeting. Appendix B sets out the Committee's current policy with respect to those non-audit services for which the independent auditor may be engaged; and
  - ii. approving any hiring of partners and employees and former partners and employees of the external auditor.
- d) Reviewing the external auditors' internal quality control procedures and any internal or external reviews of investigation of the auditors' professional practices.
- e) Requiring the external auditors to perform such supplemental reviews or audits as the Committee may deem desirable.

### **3. Internal Controls**

- a) Reviewing the integrity of internal controls with senior management, the external auditors and the internal auditor. Reviewing the external and internal auditors' recommendations on internal control matters, following-up on any identified weaknesses and management's response. Being satisfied that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the financial statements of the Company and periodically assessing the adequacy of those procedures.
- b) Discussing with the external auditors any difficulties or disputes that arose with senior management during the course of the audit and the adequacy of senior management's responses in correcting audit-related deficiencies.
- c) Reviewing the Company's processes for the CEO and CFO certifications required by applicable securities laws with respect to the Company's annual and interim filings.

#### **4. Other Matters**

- a) Reviewing the Company's accounting policies, changes thereto, financial reporting and the internal audit process.
- b) Reviewing significant transactions, contingent liabilities and the manner in which these matters are treated in the Company's financial disclosure and financial statements.
- c) Reviewing emerging accounting issues.
- d) Reviewing internal audit plans for the up-coming year.
- e) Discussing with management the Company's risk management policies and processes and reviewing with management and the external and internal auditors the effectiveness and efficiency of the same, including reviewing the Company's program to obtain insurance to mitigate risks where appropriate.
- f) Reviewing and making recommendations to the Board on the appointment of and succession planning for the Vice President Finance and Chief Financial Officer. Reviewing and making recommendations to management on the appointment and evaluation of the internal auditor(s). Periodically reviewing the structure and performance of the Company's finance organization.
- g) Conducting or authorizing investigations into any matter that the Committee believes is within the scope of its responsibilities.
- h) Retaining such special legal, accounting, financial or other consultants as the Committee may determine to be necessary to carry out, at the Company's expense, the Committee's role.
- i) Reporting through the Committee Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and matters related to this Charter. Minutes of the Committee's meetings will be made available to all members of the Board.
- j) Periodically reviewing and reassessing the adequacy of this Charter and the internal audit charter and annually reviewing and assessing the performance of the Audit Committee.

#### **5. Employee Questions and/or Concerns**

- a) Monitoring policies and procedures for dealing with questions and complaints regarding accounting, internal accounting controls, auditing and financial disclosure matters and the confidential anonymous submissions by employees of concerns regarding such matters.
- b) Monitoring compliance with the Company's Code of Conduct and the confidential anonymous submissions by employees of concerns regarding such matters.

#### **D. General**

The Committee's role is an oversight role and nothing contained in this Charter is intended to require the Committee to ensure the Company's nor any other person's compliance with applicable laws or regulations.

The Committee is a committee of the Board of Directors and is not and shall not be deemed to be an agent of the Company's security holders for any purpose whatsoever. The Board of Directors may, from time to time, permit departures from the terms hereof, either prospectively or retrospectively, and no provision contained herein is intended to give rise to civil liability to security holders of the Company or other liability whatsoever.

**SHAWCOR LTD.  
AUDIT COMMITTEE CHARTER  
APPENDIX A  
DEFINITIONS**

**Financially Literate**

Means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by Shawcor's financial statements.

**Independence**

An Audit Committee member is independent if the member has no direct or indirect material relationship with Shawcor or its subsidiaries and affiliates. A material relationship means a relationship which could, in the view of Shawcor's Board of Directors, be reasonably expected to interfere with the exercise of a member's independent judgment.

In addition to any determination which may be made by the Board of Directors of Shawcor, the following individuals will be considered to have a material relationship with Shawcor:

- a) an individual who is, or was within the last three years, an executive officer or employee of Shawcor;
- b) an individual whose immediate family member is, or was within the last three years, an executive officer of Shawcor;
- c) an individual who is a partner or employee of Shawcor's auditor;
- d) an individual who was a partner or employee of Shawcor's auditor within the last three years and personally worked on Shawcor's audit during that period;
- e) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual; is a partner of Shawcor's auditor, is an employee of Shawcor's auditor and participates in its audit, assurance or tax compliance practice or was, within the last three years, a partner or employee of Shawcor's auditor and personally worked on Shawcor's audit within that time;
- f) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of Shawcor's current executive officers serves or served at that same time on the entity's compensation committee;

- g) an individual who received, or whose immediate family member who is an executive officer of Shawcor received, more than \$75,000 in direct compensation from Shawcor during any 12 month period during the last three years, other than in his or her capacity as a Board member and other than fixed amounts of remuneration received under a retirement plan for prior service where such compensation is not contingent on continued service;
  - h) an individual who accepts, directly or indirectly, fees from Shawcor, other than in his or her capacity as a member of the Board or any Board committee, or part-time Chair or Vice Chair of the Board or any Board committee; and
  - i) an individual who is an “affiliated entity” of Shawcor or any of its subsidiaries, within the meaning of National Instrument 52-110.
- 1) For purposes hereof, “Shawcor” includes Shawcor Ltd. and any subsidiary thereof; and
  - 2) For purposes of paragraph (h), indirect acceptance of a fee by an individual includes acceptance of a fee by (i) an individual’s spouse, minor child or stepchild or child or stepchild who shares the individual’s home, or (ii) an entity in which such individual is a partner, member, officer or other comparable position and which provides accounting, consulting, legal, investment banking or financial advisory services to Shawcor.

**SHAWCOR LTD**  
**AUDIT COMMITTEE CHARTER**

**APPENDIX B**  
*AUDIT AND NON-AUDIT SERVICES*

Statutory Audits

**Audit services include:**

- The audit and/or review of annual and quarterly financial statements of Shawcor, its subsidiaries and affiliates
- Other procedures required to be performed by the independent auditor to be able to form an opinion on the Company's consolidated financial statements, including information systems and procedural reviews.

***Audit Related Services***

Audit related services are the professional attestation and related services that are reasonably related to the proper completion of the audit of the Company's financial statements. The Audit Committee has granted general pre-approval to the following audit related or other non-tax services performed by the external auditors provided in each case that the Audit Committee is informed periodically of all such services provided:

- Due diligence services pertaining to potential business acquisitions/dispositions
- Accounting consultations relating to accounting, financial reporting and disclosure issues
- Assistance with understanding and implementing new accounting and financial reporting standards and guidance
- Special audits on control procedures
- Prospectus and other regulatory audit and filing assistance

All other non-tax related services must be specifically approved by the Audit Committee.

***Tax Related Services***

**The Audit Committee has granted general pre-approval to the following tax related services supplied by the external auditor provided in each case that the Audit Committee is informed periodically of all such services provided:**

- Assistance with completion and filing of corporate tax returns
- Assistance with understanding and implementing new tax rules
- Tax consultations related to specific transactions
- Assistance and advice with respect to general corporate tax planning
- Discussions and negotiations with taxation authorities concerning the Company's tax affairs.

All other tax related services must be specifically approved by the Audit Committee.

### **Non Audit Services**

The Chair of the Audit Committee may pre-approve non-audit services to be provided by the external auditor providing all such assignments are reviewed with the full Committee at the next scheduled meeting.

### ***Prohibited Services***

**The following services are not to be provided by the external auditor:**

- Bookkeeping or other services related to the accounting records or financial statements
- Appraisal, valuation or fairness opinions
- Actuarial services
- Internal audit
- Human resource assistance
- Legal advice
- Legal services
- Investment banking services
- Management functions