

## FINAL TRANSCRIPT

**ShawCor Ltd.**

### **Second Quarter Results**

Event Date/Time: August 9, 2013 — 10:00 a.m. E.T.

Length: 44 minutes

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**CORPORATE PARTICIPANTS****Gary Love***ShawCor Ltd. — Chief Financial Officer***Bill Buckley***ShawCor Ltd. — President and Chief Executive Officer***CONFERENCE CALL PARTICIPANTS****Dan MacDonald***RBC Capital Markets — Analyst***Sarah Hughes***Cormark Securities — Analyst***Dana Benner***AltaCorp Capital — Analyst***Scott Treadwell***TD Securities — Analyst*

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**PRESENTATION****Operator**

Good morning, ladies and gentlemen, and welcome to the ShawCor Second Quarter Results Conference Call.

At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for a question. If anyone has any difficulties hearing the conference, please press \*, 0 for Operator assistance at any time.

I would like to remind everyone that this call is being recorded on August 9, 2013.

I would like now to turn the conference over to Mr. Gary Love, Chief Financial Officer. Please go ahead Mr. Love.

**Gary Love** — Chief Financial Officer, ShawCor Ltd.

Well, thank you, and good morning. Before we begin this morning's conference call, I would like to take a moment to remind all listeners that today's conference call includes forward-looking statements that involve estimates, judgements, risks, and uncertainties that may cause actual results to differ materially from those projected.

The complete text of ShawCor's statement on forward-looking information is included in Section 4 of the second quarter 2013 earnings press release that is available on SEDAR and on the Company's website at shawcor.com.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

I'll now turn the call over to Bill Buckley.

**Bill Buckley** — President and Chief Executive Officer, ShawCor Ltd.

Thanks, Gary, and thank you, ladies and gentlemen, for participating in this morning's conference call.

Yesterday we released our second quarter 2013 financial results, and I'm pleased to report that the Company continues to generate strong results with record revenue and solid operating margins, although somewhat reduced from the record levels achieved in the first quarter of this year.

During the second quarter, we continued the trend of significant year-over-year growth in revenue, with revenue reaching a new record level of 457 million, an increase of 40 percent over the second quarter of 2012. Revenue also improved marginally over the first quarter of this year, despite weakness associated with the spring break-up in Western Canada.

We're reporting EBITDA of \$101.5 million in the second quarter, a 179 percent improvement over the second quarter of 2012. Finally, quarterly net income was 53.5 million or \$0.90 per share diluted or 3 times higher than the year-ago level.

The key area of strength in the second quarter continues to be our Asia Pacific pipe coating operations. Revenue from ShawCor's Asia Pacific Pipeline segment businesses reached an unprecedented level of \$178 million in the quarter, and accounted for 39 percent of the Company's consolidated revenue. The achievement of this level of revenue was the result of continuous

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

excellent project execution on the Ichthys gas export pipeline project and the smooth ramp-up of the Chevron Wheatstone flowlines project.

Now detracting from performance in the quarter, we did incur significant start-up costs at the Socotherm facilities in the Gulf of Mexico and Pozzallo, Sicily. These costs, coupled with reduced activity levels in Western Canada for small diameter coatings and composite pipe, and higher depreciation and amortization, resulted in the decrease in operating income margin in our Pipeline segment from the record level of 26.2 percent in the first quarter to 20.6 percent in this quarter.

With the record revenue and continued execution of the \$400 million Ichthys gas export pipeline project during the quarter, our backlog did decline from the record level attained at the end of the first quarter of \$875 million to a still strong level of \$778 million.

This backlog positions ShawCor for a very strong performance in the second half of 2013, and of significance to our outlook beyond 2013, our bidding activity continues to grow with new opportunities emerging in every one of ShawCor's global regions.

And I'll comment further on these opportunities later on the call, but first I'll ask Gary Love, our CFO, to provide you with other key details on the second quarter financial results. Gary?

**Gary Love**

Yeah. Thanks, Bill. We are reporting record revenue in the second quarter of 2013 of \$457 million, up 40 percent over the second quarter of the prior year, and also up just under 1 percent from our immediately preceding quarter.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Year over year, the most significant sources of revenue growth were Asia Pacific, with revenue increasing \$127 million or 248 percent, and Latin America with revenue increasing \$15 million or 69 percent.

On a consolidated basis, reported gross margin in the second quarter is 42 percent, up 7.2 percentage points from the prior year. The Pipeline segment gross margin was 43.1 percent versus 35 percent a year ago, while the Petrochemical segment gross margin was unchanged at 30.5 percent.

Now compared to the first quarter, the Pipeline segment gross margin decreased by 3 percentage points due to start-up costs at Socotherm of approximately \$6.5 million, and reduced utilization at facilities supplying the Western Canada small diameter pipe market.

The year-over-year increase in gross profit of \$55 million was partially offset by the \$14.3 million increase in SG&A, which we are reporting at \$88.6 million versus a year ago at \$74.3 million. The major factors in the SG&A increase were the inclusion of Socotherm, which added \$4.6 million of SG&A, combined with an increase in personnel and incentive compensation costs of \$5.4 million. I would estimate that second quarter SG&A included nonrecurring costs relating to severance, legal fees, and bad debt provisions totalling approximately \$3.5 million.

The Company's overall consolidated EBITDA for the second quarter is \$101.5 million for a consolidated EBITDA margin of 22.2 percent. For the Pipeline segment, the EBITDA margin was 25.5 percent, and this compares with 29.6 percent in the first quarter. The Petrochemical and Industrial

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

segment EBITDA margin came in at 12.8 percent, and that compares with 14.5 percent in the first quarter.

The major factor in the Pipeline segment margin reduction was the decrease in gross margin that I discussed earlier, while the Petrochemical segment margin reduction was primarily due to severance costs incurred on the closure of a facility in Europe.

Depreciation and amortization in the second quarter is \$20.4 million versus \$12.2 million a year ago, and this increase is the result of accelerated depreciation in Asia Pacific, the addition of depreciation from the Socotherm acquisition, and increased amortization of intangible assets that were recognized on the Socotherm acquisition.

Now as a result of the additional long-term debt to complete the plan of arrangement transaction in March and the reduction in cash balances, net finance costs have increased to \$4.1 million versus finance income of \$730,000 a year ago.

During the second quarter 2013, the Company has recorded an effective tax rate of 29 percent, which is higher than the Canadian statutory rate of 27 percent. And this high effective tax rate is the result of losses in certain jurisdictions where the Company was not able to record a tax benefit.

Now turning to cash flows during the second quarter. Cash flow provided by continuing operations before changes in working capital and deferred revenue was \$79 million, an increase of 225 percent over the \$35.1 million level a year ago. This level of cash flow from continuing

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

operations was down by about \$8 million from the first quarter, and that's attributable to the lower net income.

The net change in working capital and deferred revenue was a net cash outflow of \$101.8 million. This was fully attributable to the \$100 million reduction in deferred revenue during the quarter.

Cash flow used in investing activities in the second quarter, excluding reductions in short-term investments, was \$56.5 million. This included capital expenditures of \$22.1 million and the acquisition of the Socotherm LaBarge joint venture interest for \$30.1 million.

The major growth capital expenditures in the second quarter included continued construction costs for the new DSG-Canusa facility in Europe, the expansion of our real-time radiography capacity, and upgrades to pipe coating facilities in Channelview, Texas and in Brazil.

Cash flow used in financing activities was \$55.9 million. Major items included the special dividend of \$59 million under the plan of arrangement, and regular quarterly dividends of \$7.4 million.

These uses of cash were partially funded by an increase in bank debt of \$5.2 million, and the issue of shares from option exercise of \$5.5 million. Overall, the cash used in operating activities and investing activities was funded by a reduction of cash and short-term investments of \$142 million.

Now on that note, I'll turn it back to Bill for his concluding remarks.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Bill Buckley**

Thank you, Gary. I mentioned at the outset of this call that ShawCor's bidding activity remains very strong, and I would add that we expect that the level of outstanding bids will continue to grow over the next several quarters.

As noted in our press release, ShawCor today has outstanding firm bids for projects with a value in excess of \$800 million. These bids are for projects that are well diversified across all of the Company's global regions. But in addition to the outstanding firm bids, we are currently tracking or have provided budgetary estimates for projects that will involve pipe coating values that exceed \$1 billion.

Project activity at these levels is indicative of the structural change that is underway in the global supply of oil and gas, with the new sources of oil and gas, such as LNG, deepwater, and shale development driving the emergence of larger and increasingly complex pipe coating projects.

In the short term, we cannot be certain as to the timing of these projects, and thus we do have the possibility that 2014 revenues will pull back from the record levels in 2013. However, we fully expect these major pipe coating projects to be a key driver for our growth in 2015 and beyond.

A second area of focus for us to drive profit growth is to realize the potential operational improvements at Socotherm. I've already spoken about the negative impact that Socotherm had on ShawCor's second quarter performance. However, improvement activities are underway as we

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

recently acquired full control of the Socotherm Gulf of Mexico facility and subsequently have transferred in proven operational leadership.

At this important location we expect a significant improvement in profitability in the second half of 2013, as this facility ramps up production on over \$80 million of booked business. We have also undertaken the effort and cost to remobilize the Socotherm Pozzallo, Sicily plant, and we fully expect that this state-of-the-art plant will be a strong profit contributor in 2014 and beyond.

Now a third area of focus is our efforts to support the robust growth opportunity of Flexpipe, our composite spoolable pipe business. Flexpipe is very well positioned to generate strong organic growth as it increases its share in what we estimate is a \$2.6 billion annual market for Flexpipe's composite pipe products in North America, Latin America, and Australia.

And lastly, I would also highlight to you our M&A department is actively engaged in evaluating acquisition opportunities of both related tuck-under businesses, as well as new platforms that expand ShawCor's breadth of products and services that we bring to the global pipeline industry.

We have the balance sheet and the management to execute on an effective acquisition program, as we have demonstrated in the past, and I expect that these initiatives will continue to be an important complement to our organic growth program.

And with that, I'll turn it back to the Operator for questions.

---

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Q&A****Operator**

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press \*, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request, and your questions will be polled in the order that they are received. Should you wish to decline from the polling process, please press \*, followed by the 2. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

Your first question comes from Dan MacDonald from RBC Capital Markets. Please go ahead.

**Dan MacDonald — RBC Capital Markets**

Hi. Good morning.

**Gary Love**

Good morning.

**Bill Buckley**

Good morning.

**Dan MacDonald**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Just wondering, guys, if maybe you could give us a bit of an outlook. Has the timing for the projects that you see in the bid book slipped a little bit farther out than say what your expectations were three or six months ago?

**Gary Love**

I don't believe so. The project timing is always a challenge in our business. We have, I think, a bid book that is somewhat skewed to work that we expect to see in 2015 and 2016, and I think there's a good chance that elements of those projects will be underway in 2014. But I think our expectation is that the timing is more in that 2015, 2016 time frame.

Some of the activity that's underway which we have not formally issued bids for, and Bill alluded to that, is I think beyond 2014, and that's not unexpected.

**Dan MacDonald**

Okay. And then just looking at the margins here and how we should think about this going forward. When we back out some of the more one-time items, do you think the back half revenue outlook is sufficient to support returning margins to sort of where they were at the start of the year? Or do you think that kind of represents a bit of a near-term peak?

**Gary Love**

I think if we dissect the second quarter a little bit, when I look at the—I hesitate to say one-time cost, but I think I can properly describe an element of nonrecurring costs in our second quarter, which aggregates probably somewhere in the range of \$10 million. And the split on that

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

would be the approximately \$3.5 million that's in our SG&A, and then I think the Socotherm costs that we incurred, which are in our cost of goods sold, which impacted our gross margin, of apparently \$6.5 million.

So I think if we normalize for those items then where we should have been in the second quarter, based on the mix of business we had, we should have seen a Pipeline segment EBITDA margin of about 28 percent. And that obviously compares with what we actually reported of 25.5. But perhaps more importantly, that 28 percent should be viewed relative to the first quarter when the Pipeline segment EBITDA margin was 29.6 percent.

So to your question, we are in the second quarter not at the level, even normalizing for the nonrecurring, we're not at the level of the first quarter. And again, we had a pretty soft quarter in terms of Western Canada, which is typically one of, let's say, the drivers of strong margins for us, so that should come back. That should come back in the second half of this year.

Our expectations are that we're through spring break-up. I don't think we're going to see a surge in well completions, but certainly we're going to see a level that's probably consistent with where the first quarter was, and so that will help us in the second half. Do we get all the way back to the 29.6 Pipeline segment EBITDA margin in the second half? I don't know. But I'd like to think we'll be moving in that direction.

**Dan MacDonald**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Okay. Thanks. And then just lastly, we have to think about the restart of the Portland facility. I guess what maybe might we expect in costs to get that back up online? And are there any specific projects that are driving your decision to bring that facility back on stream?

**Gary Love**

Portland is going to be executing work for Enbridge. There's a number of different pipeline projects that are going to be—the driver for the Portland facility is the restart of the EVRAZ pipe mill that's obviously located in Portland. And so EVRAZ have booked some pipe contracts with primarily, I think we can say, Enbridge, and we'll be coating that pipe. We don't anticipate that the restart will have any negative impact on our second half.

**Dan MacDonald**

Great. That's all I have. Thanks.

**Gary Love**

Okay.

**Operator**

Your next question comes from Sarah Hughes from Cormark Securities. Sarah, please go ahead.

**Sarah Hughes — Cormark Securities**

Hi, guys.

**Bill Buckley**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Hi.

**Sarah Hughes**

Bill, just first a question for you. In your comments you talked about, when you talked about your bid book, it's been in excess of 800 million and then you talked about some bids outside of that bid book getting to 1 billion. Can you just comment a bit like what—are those bids your—just some projects you see in your horizon that you expect to bid on? Or I'm just trying to get a sense of what that is.

**Bill Buckley**

Yeah. Sarah, those are projects that we're working on now. We're providing engineering pricing to our clients. Sort of a close example would be the LNG projects off the West Coast of Canada, but beyond that, in Asia Pacific we have both PETRONAS and Pertamina now active in deepwater, exploration in deepwater projects, and they have those on the books.

In the case of Pertamina, it will be their first deepwater execution. In the case of PETRONAS, they're moving into their second and third deepwater projects, and we are very actively involved in those. And I'd have to say that from a technology point of view we think we're well positioned in that deepwater market globally, but particularly in this area as it opens up as a new market for us.

Beyond that, we're also involved in the EMAR region in the Baku region with the BP Shah Deniz project that is a little further progressed, and we would expect that an award on that project

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

is likely before the end this year with coating likely to start in 2015. Also in the EMAR region, of course, Statoil is quite active with a series of tiebacks to new wells, tiebacks to existing systems, so our flow assurance business there is quite active. And some of those projects have been bid.

Some are not yet in our bid backlog as they roll forward just under the frame agreement that we have with Statoil.

Gulf of Mexico, of course, there is renewed activity there, lots of bidding activity, and again with some of the clients it's at the engineering phase now and hasn't yet moved into our bid book, but will. And then of course, there are the West Coast LNG projects where we're working with the clients on different logistics solutions. It's quite likely that those projects are going to require steel of a size and strength specification that will have to come from outside of North America. And if that's the case, there's an opportunity for us to deploy a Brigden on the West Coast, but again we're just at the engineering bid stages there.

So that's some of the examples of project activity that we're working on that's not yet in the bid book.

**Sarah Hughes**

And just so I understand it correctly. From the 800 million, the bids that are outside of your bid book, does that get you to 1 billion? Or is that...

**Bill Buckley**

No. That's over and above the 800.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Sarah Hughes**

Okay.

**Gary Love**

Yeah. I mean—and we do—we track a lot of projects which we haven't bid yet.

**Sarah Hughes**

Yeah.

**Gary Love**

And so just looking at the Western Canadian activity is a very large number.

**Sarah Hughes**

Right.

**Gary Love**

And we have not provided formal bids on any of that work yet.

**Sarah Hughes**

Mm-hmm.

**Gary Love**

But we expect to. We expect to over the next number of months.

**Sarah Hughes**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Okay. And then can you talk a little bit about the new Socotherm facilities, Gulf of Mexico, Italy, just in terms of kind of maybe what kind of capacity they have and how you see those ramping up in the next year or two?

**Gary Love**

Well, first of all, I'll talk about the Channelview, the Socotherm Gulf of Mexico facility located in Channelview, Texas. That facility is now ramping up on the booked business that it has. It's approximately \$80 million backlog, which it will execute over the next 12 months. Beyond the next 12 months, the Gulf of Mexico is a target-rich region, and so we would expect to sustain a level of activity in that region, which will primarily be executed at that Socotherm Gulf of Mexico facility, that will be in the \$50 million a year range. And we think that that's a pretty reasonable estimate of the kind of sustainability of that region for a number of years going forward, just given the backlog of discoveries in the Gulf of Mexico, which will over time move into production and will thus afford us the opportunities.

The Pozzallo facility in Sicily will be remobilized in the second quarter. In the second half of 2013 we're going to execute a relatively small project for Exxon. It's the Kizomba field off of Angola and it's a relatively small project, but it allows us to really reactivate that facility.

The big activity, though, will commence in 2014, and we are confident that that facility will probably execute in excess of \$45 million next year, and that's based on some work that we have

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

bid, we have not secured yet, but we believe we have a very compelling value proposition for that work. And so we see that facility being well utilized in 2014.

And to your question regarding the capacity of that facility, it's a facility that has a very extensive range of capabilities and conceivably, and I don't want to suggest that this is our expectation, but conceivably that facility could probably execute 75 million a year in work were it to be fully utilized.

**Sarah Hughes**

Okay. Great. And then just last question from me. Amortization; is what we saw in Q2, is that the run rate we should expect going forward?

**Gary Love**

Well, if we dissect the increase, the increase on a year-over-year basis is about \$6 million. Three million of that increase related to accelerated depreciation in Asia Pacific, and we will continue to run that accelerated level through the balance of this year. The other two components of the increase in depreciation were the depreciation of Socotherm assets that a year ago obviously we weren't consolidating. So that's added, on a year-over-year basis, about \$2 million, so that should be viewed as on going.

And then there's the third element, which was about \$1 million of amortization, and that is also an on going amount. So of the 20 million, I would say roughly 3 million is going to be there for the balance of this year, and then will fall off the table next year.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Sarah Hughes**

Okay. That's it for me. Thank you.

**Gary Love**

Okay.

**Operator**

Your next question comes from Dana Benner from AltaCorp Capital. Please go ahead.

**Dana Benner — AltaCorp Capital**

Good morning, guys.

**Bill Buckley**

Good morning.

**Gary Love**

Good morning.

**Dana Benner**

I apologize if you mentioned this. I had a little trouble dialling into the call today, but I want to start with one of the lines that you had in the press release talking about the beginning of work flow in Asia Pac on a “large project” called PTT, and I wonder if you could give some more colour on that?

**Gary Love**

“Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein.”

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

The PTT project was an onshore pipeline. It was a relatively simple project, a three-layer coating, and it's for an onshore pipeline for the gas transmission subsidiary of Petro Thailand, which is the national oil company of Thailand.

That project was ramped up in the quarter. It was a good project, albeit because of the nature of the work the margins were a little bit lower than what we would have on our offshore work. So good project, good execution, but just by virtue of the nature of that work it did detract somewhat from the gross margin in the Asia Pacific region.

**Dana Benner**

Okay. So when you say large, does that mean it was—I can't imagine that it was a large coating project for you. You're saying that it was a large—it's a large project overall?

**Gary Love**

Well, I can tell you the revenue on it was approximately \$15 million, I think...

**Gary Love**

In the quarter. And it will run at about that level again in the third quarter. So I think in total, I think it's a \$25 million project.

**Dana Benner**

Okay. Of course, given your recent history, large is a little different than what it used to be, so...

**Gary Love**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

No, fair enough. I'll agree that the semantics can perhaps be somewhat confusing, but, yeah. It's about a \$25 million project running over two quarters. Good work, important client, et cetera.

**Dana Benner**

Sure. And then I wonder if you gave any update at all on the timing of IDD, Indonesian Deepwater Development?

**Gary Love**

We didn't comment on that, and I don't know that we have any further information. It's obviously an important element of our bid book right now, and we expect to hear something before the end of this year.

**Dana Benner**

Okay.

**Gary Love**

Timing on execution is if we were to be awarded the project it will start next year, but the majority of that project will be executed in 2015.

**Dana Benner**

You also mention in the regional outlook Brazil and the fact that you expect it to begin to move higher, I believe it's in '014, and I wonder, the ramp that you allude to, is this the beginning of the major ramp that we've all been looking for? Or is this just a stutter step in anticipation?

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Gary Love**

We have booked a very important project, the Sapinhoa field. So we will provide insulation coatings for the riser and flowlines for the Sapinhoa field. There are currently four FPSOs that Petrobras is moving forward for production. On two of those FPSOs, the EPC that will be performing the execution of the sub-sea infrastructure is Technip and they intend to use flexible risers.

The third FPSO is the Sapinhoa, and that's the one that we'll be providing insulation on steel risers and flowlines. And on the fourth FPSO, the technical solution is still, I believe, to be determined.

So these are the first four FPSOs in the Santos basin, the pre-salt Santos basin, and are indicative of the technologies that Petrobras are looking at to ultimately fully exploit the huge resources in the Santos basin. So, very important because I think execution on this project will lead to significant future opportunities.

**Dana Benner**

Right. And remind me again. Is it—was it 40 FPSOs that ultimately could go into that area?

**Gary Love**

Yes. I think that's certainly within the realm of possibilities. It seems every day there are new announcements on discoveries. There was another one this week in the Carioca field, another Petrobras-announced significant oil discovery, so they don't appear to have exhausted the limits yet. But it will take many years to fully develop because of the complexities and costs.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Dana Benner**

True. Just one final question, if I may? As it relates to M&A, I know you've been beavering away on it for a while and it's never easy, and timing uncertain, but could we see—and you've talked about potentially adding another leg to the stool, but if you were betting men, could we see a larger acquisition that comes out of this, larger defined maybe say in the 100 million to \$200 million region? Or are these still say 15 million to \$50 million tuck-ins?

**Bill Buckley**

In our comments we said we're looking for both the tuck-unders and then also platform acquisitions. So you're likely to see announcements on tuck-unders as a regular course, and certainly if I was a betting man I'd say there should be some announcements in that regard over the next 12 months certainly.

On the platforms, we are looking at and evaluating platform opportunities. Some of those are in the general composite space, I would say; some are in the active market segments that we're pursuing, and that would include deepwater, shale plays, pipeline rehabilitation, and LNG. So, if there is another platform acquisition to be announced like Flexpipe, it will likely be in those high-growth segments.

**Gary Love**

And just in terms of level of activity. I mean we were looking at this recently. Since the conclusion of our strategic review process earlier this year, our M&A group have looked at over 30

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

opportunities. Roughly half of those we have concluded are not appropriate, but approximately half we're still evaluating very intensively. So there's a pretty good pipeline of opportunities.

**Dana Benner**

Okay. That's great. I will turn it back. Thank you.

**Operator**

Your next question comes from Scott Treadwell from TD Securities. Scott, please go ahead.

**Scott Treadwell — TD Securities**

Thanks. Good morning, guys. A couple of mop-ups, I guess, to start. Just first on the sort of start-up nonrecurring operational costs. You expect that those were fully completed in the second quarter; there's nothing really material to think about going forward?

**Gary Love**

Well, certainly the costs that are in the SG&A, the 3.5 million, those are in my view truly one-time. They're very specific matters that won't recur. With respect to the impact on our cost of goods sold, the Socotherm start-up costs, we are basically now through with the costs that were incurred to remobilize Pozzallo. Those costs were incurred in the second quarter, and that's done.

The start-up of production in Channelview is not a—that's not a step function. We are ramping up production, we're now increasing the rate of output, and we would expect during the third quarter to see steady improvement in operational performance. Are we today at the level of operational performance that we ultimately want to reach? No.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

I think we're going to see that improve through the third quarter, and I think if we do what we should do, by the end of the third quarter that plant should be operating at an appropriate level of operational effectiveness.

**Scott Treadwell**

Okay. So now it's all about fixed operating cost absorption and utilization rather than the more one-time start-up stuff?

**Gary Love**

Yeah. That's right. It's about improving the production throughput, the critical elements of manufacturing performance.

**Scott Treadwell**

Okay. Great. Secondly, I guess, turning to pricing. Now that Socotherm's sort of a little more than six months into the fold and you look out, I guess, to tie into the comments about the prospects outside the bid book, should we expect that as the market starts to tighten that the logical consequence is some pricing increases, but is it sort of fair to say that the bids that are in the book now probably don't contain any sort of substantial price increases? It's sort of the next round of bids thinking '15, '16 activity where there's a potential for pricing to move up on some scarcity?

**Gary Love**

I think there's an element of truth to what you said. I think it's not an absolute. Overall when we look at our bid book we're comfortable with the margins. We will continue to do

everything we can to improve margins, and every opportunity to bid provides us an opportunity to provide our clients with a compelling value proposition. And we need to do that in order to over time move our margins higher.

**Scott Treadwell**

Okay. Great. The last one I have is Flexpipe. You made a reference to a \$2.5 billion market. Can I kind of infer from that that the larger diameter flexible lines are now for all intents and purposes commercial?

**Gary Love**

They're not, no. I wouldn't conclude that. Our timing has been and continues to be that we will have a 6-inch product in what we call early commercial release by the end of this year. And the significance of the early commercial release is that it will have been validated internally, and through the internal validation process we have clients in the United States who we will then be able to offer that product to.

In Canada it's a different story. In Canada, what was formerly known as the ERCB and now has a different name, has a governmental validation requirement. It's a 10,000-hour validation program. That will not be complete until sometime around the end of the first quarter of 2014. So early commercial release, which we've always said we targeted for the end of this year, has been really anticipated to be in the United States only. So during 2014 we'll be affecting a broader commercial release.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Scott Treadwell**

Okay. And I also saw on Flexpipe's website the announcement of opening a Bakken facility in North Dakota. Has Flexpipe provided material solutions into the Bakken previously, i.e. there was substantial revenue there maybe done out of Saskatchewan or somewhere else? Or is this truly breaking ground on a new market?

**Bill Buckley**

I think the way to look at this is that they now have a local supply depot, they have a local service centre, and that should result in a step up, a significant step up in revenue. They have been providing some product into the Bakken from their other regional offices outside of the area, but this is a significant difference.

And they've been opening up, as you know, a series of regional offices in all of the major shale plays in the US market, and that's accounting for their strong revenue growth in the US, and with initiatives like the Bakken initiatives that's going to continue.

**Scott Treadwell**

Okay. Great. Appreciate the colour, guys. That's all I've got. I'll turn it back.

**Operator**

Ladies and gentlemen, as a reminder should you have a question, please press \*, followed by the 1.

There are no more questions at this time. Please proceed.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Bill Buckley**

Okay. Thank you, Operator. I'd just like to take this opportunity to thank everyone for their participation and interest in our call this morning, and I look forward to talking with you again at the end of the next quarter.

Thank you.

**Operator**

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating, and ask that you please disconnect your lines.

\*\*\*\*\*

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »