

# **ShawCor Ltd.**

Interim consolidated financial statements  
(Unaudited)

**June 30, 2013**

# ShawCor Ltd.

## Interim Consolidated Balance Sheets

(Unaudited)

(in thousands of Canadian dollars)	June 30, 2013	December 31, 2012
		Restated (Note 5)
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (note 8)	\$ 83,872	\$ 284,981
Short-term investments	13,336	77,950
Loans receivable (note 9)	677	1,565
Accounts receivable	353,198	376,788
Income taxes receivable	7,720	11,837
Inventories	220,454	188,347
Prepaid expenses	21,345	41,370
Derivative financial instruments	2,297	3,988
	<u>702,899</u>	<u>986,826</u>
<b>Non-current Assets</b>		
Loans receivable (note 9)	4,871	20,903
Property, plant and equipment	408,707	371,584
Intangible assets	134,694	101,455
Investment in joint venture	37,677	49,321
Investment in associate	1,179	1,348
Deferred income taxes	51,530	36,147
Other assets	9,453	10,080
Goodwill	307,219	285,710
	<u>955,330</u>	<u>876,548</u>
Assets held for sale	26,582	27,141
	<u>\$ 1,684,811</u>	<u>\$ 1,890,515</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Bank indebtedness (note 11)	\$ 10,844	\$ 5,751
Accounts payable and accrued liabilities	236,351	206,051
Provisions	50,246	46,182
Income taxes payable	43,957	35,057
Derivative financial instruments	1,855	1,926
Deferred revenue	238,492	377,091
Obligations under finance lease	1,561	1,927
	<u>583,306</u>	<u>673,985</u>
<b>Non-current Liabilities</b>		
Loans payable (note 13)	1,722	2,664
Long-term debt (note 14)	366,160	–
Obligations under finance lease	13,011	12,728
Provisions	79,920	70,637
Deferred revenue	478	64,392
Deferred income taxes	77,938	61,479
	<u>539,229</u>	<u>211,900</u>
Liabilities directly associated with the assets classified as held for sale	12,399	11,917
	<u>1,134,934</u>	<u>897,802</u>
<b>Equity</b>		
Share capital (note 16)	293,009	221,687
Contributed surplus	14,093	17,525
Retained earnings	297,221	803,787
Non-controlling interest	(429)	(331)
Accumulated other comprehensive loss	(54,017)	(49,955)
	<u>549,877</u>	<u>992,713</u>
	<u>\$ 1,684,811</u>	<u>\$ 1,890,515</u>

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

**ShawCor Ltd.**  
**Interim Consolidated Statements of Income**  
(Unaudited)

(in thousands of Canadian dollars)	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	2012 Restated (Note 5)	<b>2013</b>	2012 Restated (Note 5)
<b>Revenue</b>				
Sale of products	\$ 113,432	\$ 90,352	\$ 219,289	\$ 194,833
Rendering of services	343,829	236,571	692,653	444,358
	<b>457,261</b>	326,923	<b>911,942</b>	639,191
<b>Cost of Goods Sold and Services Rendered</b>	<b>265,016</b>	213,134	<b>515,055</b>	407,214
<b>Gross Profit</b>	<b>192,245</b>	113,789	<b>396,887</b>	231,977
Selling, general and administrative expenses	88,569	74,305	183,488	146,314
Research and development expenses	4,112	3,660	8,051	6,765
Foreign exchange (gains) losses	(1,171)	400	(333)	1,245
Amortization of property, plant and equipment	17,614	10,385	31,829	20,252
Amortization of intangible assets	2,790	1,807	4,899	3,615
Loss on assets held for sale	1,795	–	1,292	–
<b>Income from Operations</b>	<b>78,536</b>	23,232	<b>167,661</b>	53,786
Income on investment in associate	–	1,450	–	2,718
Income (loss) on investment in joint ventures	794	(480)	123	(360)
Finance (costs) income, net	(4,149)	730	(4,998)	432
<b>Income before Income Taxes</b>	<b>75,181</b>	24,932	<b>162,786</b>	56,576
Income taxes	21,659	4,441	38,738	11,952
<b>Net Income for the Period</b>	<b>\$ 53,522</b>	\$ 20,491	<b>\$ 124,048</b>	\$ 44,624
<b>Net Income Attributable to:</b>				
Shareholders of the Company	\$ 53,914	\$ 21,377	\$ 124,509	\$ 44,624
Non-controlling interests	(392)	(886)	(461)	–
<b>Net Income for the Period</b>	<b>\$ 53,522</b>	\$ 20,491	<b>\$ 124,048</b>	\$ 44,624
<b>Earnings per Share</b> (note 18)				
Basic	\$ 0.91	\$ 0.30	\$ 1.94	\$ 0.63
Diluted	\$ 0.90	\$ 0.30	\$ 1.91	\$ 0.63
<b>Weighted Average Number of Shares Outstanding</b> (000's) (note 18)				
Basic	59,404	70,574	64,192	70,613
Diluted	60,118	71,270	65,032	71,299

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

**ShawCor Ltd.**  
**Interim Consolidated Statements of Comprehensive Income**  
(Unaudited)

(in thousands of Canadian dollars)	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
		Restated (Note 5)		Restated (Note 5)
<b>Net Income for the Period</b>	<b>\$ 53,522</b>	\$ 20,491	<b>\$ 124,048</b>	\$ 44,624
<b>Other comprehensive loss to be reclassified to net income in subsequent periods:</b>				
Exchange differences on translation of foreign operations	(2,435)	1,191	3,181	(5,762)
Other comprehensive loss attributable to investment in associate	–	(1,409)	–	(613)
Loss on cash flow hedge	–	–	(6,880)	–
<b>Net other comprehensive loss to be reclassified to net income in subsequent periods</b>	<b>(2,435)</b>	(218)	<b>(3,699)</b>	(6,375)
<b>Items not to be reclassified to net income in subsequent periods:</b>				
Actuarial loss on defined benefit plans	–	(1,312)	–	(2,623)
Income tax expense	–	338	–	677
	–	(974)	–	(1,946)
<b>Net other comprehensive loss not to be reclassified to net income in subsequent periods</b>	<b>–</b>	(974)	<b>–</b>	(1,946)
<b>Other Comprehensive Loss, Net of Income Tax</b>	<b>(2,435)</b>	(1,192)	<b>(3,699)</b>	(8,321)
<b>Total Comprehensive Income For the Period, Net of Income Tax</b>	<b>\$ 51,087</b>	\$ 19,299	<b>\$ 120,349</b>	\$ 36,303
<b>Comprehensive Income Attributable to:</b>				
Shareholders of the Company	\$ 51,465	\$ 20,322	\$ 120,447	\$ 36,303
Non-controlling interests	(378)	(1,023)	(98)	–
<b>Total Comprehensive Income for the Period, Net of Income Tax</b>	<b>\$ 51,087</b>	\$ 19,299	<b>\$ 120,349</b>	\$ 36,303

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

# ShawCor Ltd.

## Interim Consolidated Statements of Changes in Equity

(Unaudited)

(in thousands of Canadian dollars)

(Restated – see note 5)	Share Capital	Contributed Surplus	Retained Earnings	Non- Controlling Interest	Accumulated Other Comprehensive Loss	Total Equity
<b>Balance - December 31, 2012</b>	<b>\$ 221,687</b>	<b>\$ 17,525</b>	<b>\$ 803,787</b>	<b>\$ (331)</b>	<b>\$ (49,955)</b>	<b>\$ 992,713</b>
Net income for the period	–	–	124,509	(461)	–	124,048
Issued on exercise of stock options	12,182	–	–	–	–	12,182
Compensation cost on exercised options	4,678	(4,678)	–	–	–	–
Compensation cost on exercised RSUs	24	(24)	–	–	–	–
Stock-based compensation expense	–	1,270	–	–	–	1,270
Cancellation of Class B shares (note 16)	54,438	–	(553,215)	–	–	(498,777)
Share cancellation costs (net of income tax benefit of \$1.5 million)	–	–	(4,312)	–	–	(4,312)
Other comprehensive income (loss)	–	–	–	363	(4,062)	(3,699)
Dividends paid to shareholders	–	–	(73,548)	–	–	(73,548)
<b>Balance - June 30, 2013</b>	<b>\$ 293,009</b>	<b>\$ 14,093</b>	<b>\$ 297,221</b>	<b>\$ (429)</b>	<b>\$ (54,017)</b>	<b>\$ 549,877</b>
<b>Balance - December 31, 2011</b>	<b>\$ 218,381</b>	<b>\$ 16,391</b>	<b>\$ 668,521</b>	<b>–</b>	<b>\$ (45,033)</b>	<b>\$ 858,260</b>
Net income for the period	–	–	44,624	–	–	44,624
Issued on exercise of stock options	2,978	–	–	–	–	2,978
Compensation cost on exercised options	1,088	(1,088)	–	–	–	–
Compensation cost on exercised RSUs	40	(40)	–	–	–	–
Stock-based compensation expense	–	1,427	–	–	–	1,427
Other comprehensive loss	–	–	–	–	(8,321)	(8,321)
Dividends paid to shareholders	–	–	(12,523)	–	–	(12,523)
Purchase – normal course issuer bid	(2,176)	–	–	–	–	(2,176)
Excess of purchase price over stated value of shares	–	–	(16,712)	–	–	(16,712)
<b>Balance – June 30, 2012</b>	<b>\$ 220,311</b>	<b>\$ 16,690</b>	<b>\$ 683,910</b>	<b>–</b>	<b>\$ (53,354)</b>	<b>\$ 867,557</b>

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

# ShawCor Ltd.

## Interim Consolidated Statements of Cash Flows

(Unaudited)

(in thousands of Canadian dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012 Restated (Note 5)	2013	2012 Restated (Note 5)
<b>Operating Activities</b>				
Net income for the period	\$ 53,522	\$ 20,491	\$ 124,048	\$ 44,624
Add (deduct) items not affecting cash				
Amortization of property, plant and equipment	17,614	10,385	31,829	20,252
Amortization of intangible assets	2,790	1,807	4,899	3,615
Amortization of long-term prepaid expenses	329	357	438	511
Decommissioning liabilities expense	(168)	119	233	712
Other provisions expense (recovery)	7,967	1,023	17,068	(2,832)
Stock-based and incentive based compensation (note 17)	4,344	3,984	11,358	6,206
Deferred income taxes	(2,025)	147	(9,307)	(1,464)
(Gain) loss on disposal of property, plant and equipment	–	(354)	42	(296)
Loss (gain) on derivative financial instruments	1,179	(155)	1,620	–
Gain on investment in associate	–	(1,450)	–	(2,718)
(Gain) loss on investment in joint ventures	(794)	480	(123)	360
Loss on assets held for sale	1,795	–	1,292	–
Other assets	639	(1,263)	627	(1,066)
Settlement of decommissioning liabilities	(58)	(292)	(609)	(541)
Settlement of other provisions	(7,705)	(266)	(11,700)	(410)
Net change in non-current deferred revenue	(1,305)	(78,487)	(63,914)	205,876
Net change in employee future benefits	(445)	102	(5,691)	804
Net change in non-cash working capital and foreign exchange	(101,046)	24,004	(100,271)	174,870
<b>Cash (used in) provided by Operating Activities</b>	<b>(23,367)</b>	<b>(19,368)</b>	<b>1,839</b>	<b>448,503</b>
<b>Investing Activities</b>				
Decrease (increase) in loans receivable	547	(61,535)	1,063	(61,580)
Redemption (purchase) of short-term investments, net	(7,048)	(24,615)	64,614	(144,493)
Purchase of property, plant and equipment	(22,141)	(17,803)	(38,247)	(27,416)
Proceeds on disposal of property, plant and equipment	300	429	300	641
Purchase of intangible assets	(13)	(10)	(72)	(45)
Investment in joint venture	(7,398)	–	(7,398)	–
Business acquisition	(30,163)	–	(30,163)	–
(Increase) decrease in other assets	(4)	–	105	–
<b>Cash used in Investing Activities</b>	<b>(65,920)</b>	<b>(103,534)</b>	<b>(9,798)</b>	<b>(232,893)</b>
<b>Financing Activities</b>				
Increase (decrease) in bank indebtedness	5,167	2,256	5,093	(9,192)
(Decrease) increase in loans payable	(1,518)	462	824	462
Repayment of finance lease obligation	–	(114)	–	(175)
Proceeds from long-term debt	–	–	356,280	–
Proceeds from interest rate swap	–	–	2,111	–
Issuance of shares	5,467	978	12,182	2,978
Repurchase of shares	–	(18,888)	(503,089)	(18,888)
Dividend paid to shareholders	(66,632)	(6,958)	(73,548)	(12,523)
<b>Cash used in Financing Activities</b>	<b>(57,516)</b>	<b>(22,264)</b>	<b>(200,147)</b>	<b>(37,338)</b>
<b>Foreign Exchange impact on Cash and Cash Equivalents</b>	<b>5,227</b>	<b>267</b>	<b>6,997</b>	<b>157</b>
<b>Net change in Cash and Cash Equivalents for the Period</b>	<b>(141,576)</b>	<b>(144,899)</b>	<b>(201,109)</b>	<b>178,429</b>
<b>Cash and Cash Equivalents - Beginning of Period</b>	<b>225,448</b>	<b>379,865</b>	<b>284,981</b>	<b>56,537</b>
<b>Cash and Cash Equivalents - End of Period</b>	<b>\$ 83,872</b>	<b>\$ 234,966</b>	<b>\$ 83,872</b>	<b>\$ 234,966</b>

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

# ShawCor Ltd.

## Notes to the Interim consolidated financial statements

(Unaudited)

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### 1. Corporate Information

ShawCor Ltd. (the "Company") is a publicly listed company incorporated in Canada with its shares listed on the Toronto Stock Exchange. ShawCor Ltd., together with its wholly owned subsidiaries (collectively referred to as "ShawCor"), is a growth oriented, global energy services company serving the Pipeline and Pipe Services and the Petrochemical and Industrial segments of the energy industry. The Company operates eight divisions with over 75 manufacturing and service facilities located around the world. Further information as it pertains to the nature of operations is set out in note 6.

The head office, principal address and registered office of the Company is 25 Bethridge Road, Toronto, Ontario, M9W 1M7, Canada. The interim consolidated financial statements and accompanying notes as at and for the three-month and six-month periods ended June 30, 2013 were authorized for issue by the Company's Board of Directors (the "Board") on August 8, 2013.

### 2. Basis of Preparation and Adoption of International Financial Reporting Standards ("IFRS")

#### Basis of Preparation

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of financial statements, including International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and thus should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2012 ("Annual Consolidated Financial Statements").

#### New Standards, Interpretations and Amendments Adopted by the Company

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Annual Consolidated Financial Statements, except for the adoption of new standards and interpretations effective as of January 1, 2013.

The Company has applied certain standards and amendments that require restatement of previous financial statements. These include *IFRS 10, Consolidated Financial Statements*, *IFRS 11, Joint Arrangements*, *IAS 19 (Revised 2011) Employee Benefits*, *IFRS 1.3 Fair Value Measurement* and amendments to *IAS 1, Presentation of Financial Statements*. As required by *IAS 34*, the nature and the effect of these changes are disclosed in the notes below. In addition, the application of *IFRS 12, Disclosure of Interests in Other Entities* would result in additional disclosures in the annual consolidated financial statements.

Several other new standards and amendments apply for the first time in 2013. However, they do not have a material impact on the annual consolidated financial statements or the interim consolidated financial statements of the Company.

The nature of each new standard/amendment is discussed below in note 4 and the impact of each new standard/amendment is described and shown in note 5.

#### Basis of Presentation and Consolidation

The interim consolidated financial statements have been prepared on the historical cost basis, except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in the Company's Annual Consolidated Financial Statements.

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

The interim consolidated financial statements comprise the financial statements of the Company and the entities under its control.

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

# ShawCor Ltd.

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to the interim consolidated financial statements, are described in note 3 of the Company's Annual Consolidated Financial Statements.

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

### 3. Accounting Standards Issued but not yet Applied

#### *IFRS 9, Financial Instruments*

*IFRS 9, Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets and replaces the multiple categories and measurement models in *IAS 39, Financial Instruments – Recognition and Measurement*, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. *IFRS 9* also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss).

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in *IAS 39*, except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss would generally be recorded in other comprehensive income (loss).

The standard is effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

### 4. New Accounting Standards Adopted

#### *IAS 1, Presentation of Financial Statements*

##### Presentation of Items of Other Comprehensive Income

The IASB amended *IAS 1, Presentation of Financial Statements*, by revising how certain items are presented in other comprehensive income ("OCI"). Items within OCI that may be reclassified to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The Company adopted this standard effective January 1, 2013. The Company has modified its statement of comprehensive income to comply with the amendments made to *IAS 1*. The amendment affected presentation only and had no impact on the Company's financial position or results of operations.

##### Clarification of the Requirement for Comparative Information

The amendment to *IAS 1* clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative information. The additional voluntary comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the "Opening Balance Sheet") must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that an Opening Balance Sheet does not have to be accompanied by comparative information in the related notes. The Company disclosed the Opening Balance Sheet in its interim consolidated financial statements for the quarter ended March 31, 2013, which were previously published.



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### *IFRS 10, Consolidated Financial Statements*

For annual periods beginning on or after January 1, 2013, *IFRS 10, Consolidated Financial Statements*, replaced portions of *IAS 27, Consolidated and Separate Financial Statements* and interpretation *SIC-12, Consolidation – Special Purpose Entities*. The new standard requires consolidated financial statements to include all controlled entities under a single control model. *IFRS 10* changes the definition of control such that an investor is considered to control an investee when it is exposed, or has rights to, variable returns from its involvement with the investee, and has the current ability to affect those returns through its power over the investee. To meet the definition of control in *IFRS 10*, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. As required by this standard, control is reassessed as facts and circumstances change. All facts and circumstances must be considered to make a judgment about whether the Company controls another entity. Additional guidance is given on how to evaluate whether certain relationships give the Company the current ability to affect its returns, including how to consider options and convertible instruments, holding less than a majority of voting rights, how to consider protective rights and principal agency relationships (including removal rights), all of which may differ from current practice. The Company's adoption of *IFRS 10* effective January 1, 2013 had no material impact on the consolidation of investments by the Company.

### *IFRS 11, Joint Arrangements*

On January 1, 2013, ShawCor adopted *IFRS 11, Joint Arrangements*, which applies to accounting for interests in joint arrangements where there is joint control. *IFRS 11* replaces *IAS 31, Interests in Joint Ventures* and *SIC-13, Jointly-controlled Entities – Non-monetary Contributions by Venturers*. *IFRS 11* requires that reporting issuers consider whether a joint arrangement is structured through a separate vehicle, as well as the terms of the contractual arrangement and other relevant facts and circumstances, to assess whether the venture is entitled to only the net assets of the joint arrangement ("joint venture") or to its share of the assets and liabilities of the joint arrangement ("a joint operation"). A joint venture is accounted for using the equity method and a joint operation is accounted for by including the joint venture partner's share of the assets, liabilities, revenue and expenses in the consolidated financial statements of the joint venture partner.

The application of *IFRS 11* resulted in the Company replacing the proportionate consolidation method of accounting for joint ventures with the equity method of accounting for joint ventures. The effect of *IFRS 11* is described in note 5, which includes quantification of the effect on the Company's interim consolidated financial statements.

### *IFRS 12, Disclosure of Interests in Other Entities*

On January 1, 2013, the Company adopted *IFRS 12, Disclosure of Interests in Other Entities*, which includes disclosure requirements about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaced existing disclosure requirements. Due to this new standard, the Company is now required to disclose in its annual consolidated financial statements the following: judgments and assumptions made when deciding how to classify involvement with another entity, interests that non-controlling interests have in consolidated entities, and the nature of the risks associated with interests in other entities.

*IFRS 12* sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim consolidated financial statements that are prepared in accordance with *IAS 34*, unless significant events and transactions occur in the interim period that require disclosure. Accordingly, the Company has not made such disclosure in these interim consolidated financial statements.

### *IFRS 13, Fair Value Measurement*

Effective January 1, 2013, the Company has adopted *IFRS 13, Fair Value Measurement*. *IFRS 13* establishes a single source of guidance for all fair value measurements, when fair value is required or permitted by IFRS. *IFRS 13* does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. In addition, fair value will now be defined as the 'exit price' and concepts of 'highest and best use' and 'valuation premise' are relevant only for non-financial assets and liabilities. Upon adoption, the Company has started to use a single framework for measuring fair value and will provide additional disclosures as prescribed by IFRS. The application of *IFRS 13* has not materially impacted the fair value measurements carried out by the Company.

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*IFRS 13* also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including *IFRS 7, Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by *IAS 34.16A(j)*, thereby affecting these interim consolidated financial statements. The Company has provided these prescribed financial statement disclosures in Note 15.

### ***IAS 19R, Employee Benefits***

Effective January 1, 2013, ShawCor adopted *IAS 19R, Employee Benefits*. *IAS 19R* includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognized in other comprehensive income (OCI) and permanently excluded from profit or loss; expected returns on plan assets are no longer recognized in profit or loss; interest on the net defined benefit liability (asset) is recognized in profit or loss, and is calculated using the discount rate used to measure the defined benefit obligation; and unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. The amended standard impacts the net benefit expense as the expected return on plan assets is calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. Other amendments include new disclosures, such as quantitative sensitivity disclosures.

The transition to *IAS 19R* has had a material impact on the net defined benefit plan obligations due to the difference in accounting for interest on plan assets and unvested past service costs. The effect of *IAS 19R* is described in note 5, which includes quantification of the effect on the Company's interim consolidated financial statements.

### ***IAS 27, Separate Financial Statements***

ShawCor adopted *IAS 27, Separate Financial Statements* effective January 1, 2013. As a result of the issue of the new consolidation suite of standards, *IAS 27* has been reissued to reflect the changes to the consolidation guidance recently included in *IFRS 10*. In addition, *IAS 27* will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements. There was no impact from the adoption of this new standard on the Company's interim consolidated financial statements.

### ***IAS 28, Investments in Associates and Joint Ventures***

ShawCor adopted *IAS 28, Investments in Associates and Joint Ventures* effective January 1, 2013. As a consequence of the issue of *IFRS 10, IFRS 11* and *IFRS 12*, *IAS 28* has been amended and now provides further accounting guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard will be applied by the Company when there is joint control or significant influence over an investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not include control or joint control of those policy decisions. When it has been determined that the Company has an interest in a joint venture or has significant influence over an investee, the Company will recognize an investment and will account for it using the equity method in accordance with *IAS 28*.

The adoption of *IAS 28* by the Company changed the method of accounting for its joint ventures from the proportionate consolidation method to the equity method. The effect of *IAS 28* is described in note 5, which includes quantification of the effect on the Company's interim consolidated financial statements.

# ShawCor Ltd.

## Notes to the Interim consolidated financial statements

(Unaudited)

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### 5. Impact of Adopting New Accounting Standards

#### a) IFRS 11, Joint Arrangements

The Company had the following interests in joint ventures as at January 1, 2013:

	Country of Incorporation	Activity	Proportionate Interest Held %
Hal Shaw Inc.	U.S.A.	Pipe coating	50
Shaw & Shaw Ltd.	Canada	Pipe coating	83
Helicone Holdings Limited	Russia	Pipe coating	25
Socotherm Brasil S.A.	Brazil	Pipe coating	50
Atlantida Socotherm S.A.	Argentina	Pipe coating	50
Socotherm LaBarge LLC	U.S.A.	Pipe coating	51

Under IAS 31, *Investment in Joint Ventures* (prior to the transition to IFRS 11), the Company's interests in all of its joint ventures were classified as jointly controlled entities and the Company's share of the assets, liabilities, revenue, and expenses was proportionately consolidated in the consolidated financial statements. The goodwill that was recognized from the acquisition of the remaining 60% of Fineglade Limited in October 2012 will be allocated to the acquired joint ventures upon finalization of the purchase price allocation. Upon adoption of IFRS 11, the Company has determined all of its interests to be joint ventures that are now accounted for using the equity method. The effect of applying IFRS 11 on the interim consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2012, is shown in the IFRS transition bridges below. The opening balance sheet has not been presented in these interim consolidated financial statements because it has already been disclosed in the Company's interim consolidated financial statements for the quarter ended March 31, 2013.

#### b) IAS 19R, Employee Benefits

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

IAS 19R has been applied retrospectively from January 1, 2012. As a result, expected returns on plan assets of the defined benefit plans are not recognized in profit or loss. Instead, interest on the net defined benefit obligation is recognized in profit or loss, calculated using the discount rate used to measure the net pension obligation or asset. Also, unvested past service costs can no longer be deferred and recognized over the future vesting period. Instead, all past service costs are recognized at the earlier of when the amendment occurs and when the Company recognizes related restructuring or termination costs. Until 2012, the Company's unvested past service costs were recognized as an expense on a straight-line basis over the average period until the benefits become vested. Upon transition to IAS 19R, past service costs are recognized immediately in other comprehensive income, if the benefits have vested immediately following the introduction of, or changes to, a pension plan.

The effect of applying IAS 19R on the interim consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2012, is shown in the IFRS transition bridges below. The opening balance sheet has not been presented in these interim consolidated financial statements because it has already been disclosed in the Company's interim consolidated financial statements for the quarter ended March 31, 2013.

# ShawCor Ltd.

## Notes to the Interim consolidated financial statements

(Unaudited)

### IFRS reconciliation of the interim consolidated statements of income and comprehensive income for the six months ended June 30, 2012

<u>Consolidated Statement of Income</u>	IFRS June 30, 2012	IFRS 11 Joint Arrangements (note 5a)	IAS 19 Employee Benefits (note 5b)	Restated Under IFRS Changes June 30, 2012
<b>Revenue</b>	\$ 639,191	\$ –	\$ –	\$ 639,191
<b>Cost of goods sold and Services Rendered</b>	407,054	160	–	407,214
<b>Gross profit</b>	232,137	(160)	–	231,977
Selling, general and administrative expenses	146,536	(295)	73	146,314
Research and development expenses	6,765	–	–	6,765
Foreign exchange losses	1,244	1	–	1,245
Amortization of property, plant and equipment	20,327	(75)	–	20,252
Amortization of intangible assets	3,615	–	–	3,615
<b>Income from operations</b>	53,650	209	(73)	53,786
Income on investment in associate	2,718	–	–	2,718
Investment loss in joint ventures	–	(360)	–	(360)
Finance income, net	191	241	–	432
<b>Income before income taxes</b>	56,559	90	(73)	56,576
<b>Income taxes(recovery)</b>	11,881	90	(19)	11,952
<b>Net income for the period</b>	\$ 44,678	\$ –	\$ (54)	\$ 44,624
<b>Net income attributable to:</b>				
Shareholders of the Company	\$ 44,678	\$ –	\$ (54)	\$ 44,624
Non-controlling interests	–	–	–	–
	\$ 44,678	\$ –	\$ (54)	\$ 44,624
<b>Earnings per share</b>				
Basic	\$ 0.63	\$ –	\$ –	\$ 0.63
Diluted	\$ 0.63	\$ –	\$ –	\$ 0.63
<b><u>Consolidated Statement of Comprehensive Income</u></b>				
<b>Net income for the period</b>	\$ 44,678	\$ –	\$ (54)	\$ 44,624
Exchange differences on translation of foreign operations	(6,005)	243	–	(5,762)
Other comprehensive loss attributable to investment in joint ventures	(613)	–	–	(613)
Actuarial loss on defined benefit plans	–	–	(2,623)	(2,623)
Income tax effect of actuarial loss on defined benefit plans	–	–	677	677
Other comprehensive loss for the period	(6,618)	243	(1,946)	(8,321)
<b>Comprehensive income for the period</b>	\$ 38,060	\$ 243	\$ (2,000)	\$ 36,303
<b>Comprehensive income attributable to:</b>				
Shareholders of the Company	\$ 38,060	\$ 243	\$ (2,000)	\$ 36,303
Non-controlling interests	–	–	–	–
<b>Comprehensive income for the period</b>	\$ 38,060	\$ 243	\$ (2,000)	\$ 36,303

# ShawCor Ltd.

## Notes to the Interim consolidated financial statements

(Unaudited)

### IFRS reconciliation of the interim consolidated statements of income and comprehensive income for the three months ended June 30, 2012

<u>Consolidated Statement of Income</u>	IFRS June 30, 2012	IFRS 11 Joint Arrangements (note 5a)	IAS 19 Employee Benefits (note 5b)	Restated Under IFRS Changes June 30, 2012
<b>Revenue</b>	\$ 326,923	\$ –	–	\$ 326,923
<b>Cost of goods sold and Services Rendered</b>	213,280	(146)	–	213,134
<b>Gross profit</b>	<u>113,643</u>	<u>146</u>	<u>–</u>	<u>113,789</u>
Selling, general and administrative expenses	74,560	(291)	36	74,305
Research and development expenses	3,660	–	–	3,660
Foreign exchange losses	399	1	–	400
Amortization of property, plant and equipment	10,422	(37)	–	10,385
Amortization of intangible assets	1,807	–	–	1,807
<b>Income from operations</b>	<u>22,795</u>	<u>473</u>	<u>(36)</u>	<u>23,232</u>
Income on investment in associate	1,450	–	–	1,450
Investment loss in joint ventures	–	(480)	–	(480)
Finance income	604	126	–	730
<b>Income before income taxes</b>	<u>24,849</u>	<u>119</u>	<u>(36)</u>	<u>24,932</u>
<b>Income taxes (recovery)</b>	<u>4,331</u>	<u>119</u>	<u>(9)</u>	<u>4,441</u>
<b>Net income for the period</b>	<u>\$ 20,518</u>	<u>\$ –</u>	<u>\$ (27)</u>	<u>\$ 20,491</u>
<b>Net income attributable to:</b>				
Shareholders of the Company	21,404	–	(27)	21,377
Non-controlling interests	(886)	–	–	(886)
	<u>20,518</u>	<u>–</u>	<u>(27)</u>	<u>20,491</u>
<b>Earnings per share</b>				
Basic	\$ 0.30	\$ –	\$ –	\$ 0.30
Diluted	\$ 0.30	\$ –	\$ –	\$ 0.30
<b>Consolidated Statement of Comprehensive Income</b>				
<b>Net income for the period</b>	<u>\$ 20,518</u>	<u>\$ –</u>	<u>\$ (27)</u>	<u>\$ 20,491</u>
Exchange differences on translation of foreign operations	1,191	–	–	1,191
Other comprehensive loss attributable to investment in associate	(1,409)	–	–	(1,409)
Actuarial loss on defined benefit plans	–	–	(1,312)	(1,312)
Income tax effect of actuarial loss on defined benefit plans	–	–	338	338
Other comprehensive loss for the period	<u>(218)</u>	<u>–</u>	<u>(974)</u>	<u>(1,192)</u>
<b>Comprehensive income for the period</b>	<u>\$ 20,300</u>	<u>\$ –</u>	<u>\$ (1,001)</u>	<u>\$ 19,299</u>
<b>Comprehensive income attributable to:</b>				
Shareholders of the Company	\$ 21,323	\$ –	\$ (1,001)	\$ 20,322
Non-controlling interests	(1,023)	–	–	(1,023)
<b>Comprehensive income for the period</b>	<u>\$ 20,300</u>	<u>\$ –</u>	<u>\$ (1,001)</u>	<u>\$ 19,299</u>

# ShawCor Ltd.

## Notes to the Interim consolidated financial statements

(Unaudited)

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### 6. Segment Information

ShawCor's operating segments are being reported based on the financial information provided to the Chief Executive Officer, who has been identified as the chief operating decision-maker ("CODM") in monitoring segment performance and allocating resources between segments. The CODM assesses segment performance based on segment operating income or loss, which is measured differently than operating income or loss in the interim consolidated financial statements. Finance costs and income taxes are managed at a consolidated level and are not allocated to the reportable operating segments.

As at June 30, 2013, ShawCor had two reportable operating segments: Pipeline and Pipe Services and Petrochemical and Industrial. Inter-segment transactions between Pipeline and Pipe Services and Petrochemical and Industrial are accounted for at negotiated transfer prices.

#### Pipeline and Pipe Services

The Pipeline and Pipe Services segment comprises the following business units:

- Bredero Shaw, which provides pipe-coating, lining and insulation products;
- Flexpipe Systems, which provides spoolable composite pipe systems;
- Canusa - CPS, which manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications;
- Shaw Pipeline Services, which provides ultrasonic and radiographic weld inspection services for land and marine pipeline construction;
- Guardian, which provides oilfield tubular management services and inspection, testing and refurbishment of oilfield tubular; and
- Socotherm, which provides pipe coating, lining and insulation products.

#### Petrochemical and Industrial

The Petrochemical and Industrial segment comprises the following business units:

- ShawFlex, which manufactures wire and cable for process instrumentation and control applications; and
- DSG-Canusa, which manufactures heat-shrinkable tubing for automotive, electrical, electronic and utility applications.

#### Financial and Corporate

The financial and corporate division of ShawCor only earns revenue that is considered incidental to the activities of the Company. As a result, it does not meet the definition of a reportable operating segment as defined in IFRS.

# ShawCor Ltd.

## Notes to the Interim consolidated financial statements

(Unaudited)

### Segment

The following table sets forth information for revenue and income (loss) from operations by segment for the three months ended June 30:

(in thousands of Canadian dollars)	Pipeline and Pipe Services		Petrochemical and Industrial		Financial and Corporate		Eliminations and Adjustments		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Revenue										
External	\$417,247	\$287,767	\$40,014	\$39,156	\$-	\$-	\$-	\$-	\$457,261	\$326,923
Inter-segment	196	164	337	372	-	-	(533)	(536)	-	-
	\$417,443	\$287,931	\$40,351	\$39,528	\$-	\$-	\$(533)	\$(536)	\$457,261	\$326,923
Income (loss) from operations	\$85,945	\$26,784	\$5,056	\$5,424	\$(12,465)	\$(8,976)	\$-	\$-	\$78,536	\$23,232

The following table sets forth information for revenue and income (loss) from operations by segment for the six months ended June 30:

(in thousands of Canadian dollars)	Pipeline and Pipe Services		Petrochemical and Industrial		Financial and Corporate		Eliminations and Adjustments		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Revenue										
External	\$833,618	\$562,625	\$78,324	\$76,566	\$-	\$-	\$-	\$-	\$911,942	\$639,191
Inter-segment	499	203	599	715	-	-	(1,098)	(918)	-	-
	\$834,117	\$562,828	\$78,923	\$77,281	\$-	\$-	\$(1,098)	\$(918)	\$911,942	\$639,191
Income (loss) from operations	\$195,171	\$64,065	\$10,073	\$10,465	\$(37,583)	\$(20,744)	\$-	\$-	\$167,661	\$53,786

The following table sets forth information for total assets by segment as at:

(in thousands of Canadian dollars)	June 30, 2013	December 31, 2012
Pipeline and Pipe Services	\$1,807,182	\$1,696,797
Petrochemical and Industrial	130,327	124,324
Financial and Corporate	692,265	933,985
Eliminations and adjustments	(994,963)	(864,591)
	\$1,684,811	\$1,890,515

# ShawCor Ltd.

## Notes to the Interim consolidated financial statements

(Unaudited)

### 7. Acquisition

On April 15, 2013, the Company completed the acquisition of the remaining 49% of Socotherm S.p.A's joint venture in the U.S.A. for total consideration of approximately \$30 million, including the assumption of bank debt. The joint venture has a strategically located facility in Channelview, Texas which provides anticorrosion and advanced insulation coatings for global offshore applications, including in the Gulf of Mexico and West African markets.

As per the provisional purchase price allocation, the approximate value of the tangible assets acquired and tangible liabilities assumed was \$37.0 million and \$60.7 million, respectively. The approximate value of the intangible assets acquired and intangible liabilities assumed was \$90.9 million and \$17.2 million, respectively.

### 8. Cash and Cash Equivalents

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

(in thousands of Canadian dollars)	June 30, 2013	December 31, 2012
Cash	\$ 71,138	\$ 252,181
Cash equivalents	12,734	32,800
<b>Total</b>	<b>\$ 83,872</b>	<b>\$ 284,981</b>

### 9. Loans Receivable

The following table details the loans receivable as at the periods presented:

(in thousands of Canadian dollars)	June 30, 2013	December 31, 2012
<b>Current</b>		
Loan receivable from associate	\$ 677	\$ 1,565
	677	1,565
<b>Non-current</b>		
Notes receivable <sup>(a)</sup>	3,928	3,745
Loan receivable from associate	943	17,158
	4,871	20,903
<b>Total</b>	<b>\$ 5,548</b>	<b>\$ 22,468</b>

(a) Long-term notes receivable relate to an amount advanced by the Company to an external party to support the construction of port facilities at a Bredero Shaw plant location in Kabil, Indonesia. Interest is payable semi-annually at US prime plus 0.25%, with principal repayments to be made in four semi-annual instalments beginning no later than March 31, 2018, as set out in the loan agreement terms.

### 10. Employee Future Benefits

The Company's cost under both defined benefit and defined contribution arrangements included in selling, general and administrative expenses for the three-month and six-month periods ended June 30, 2013 were \$3.3 million and \$10.9 million, respectively (three-month and six-month periods ended June 30, 2012 – \$2.9 and \$5.4 million, respectively).



# ShawCor Ltd.

## Notes to the Interim consolidated financial statements

(Unaudited)

### 11. Unsecured Credit Facilities

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

(in thousands of Canadian dollars)	June 30, 2013	December 31, 2012
Bank indebtedness <sup>(a)</sup>	\$ 10,844	\$ 5,751
Standard letters of credit for performance, bid and surety bonds	80,435	81,178
Total utilized credit facilities	91,279	86,929
Total available credit facilities <sup>(b)</sup>	313,770	251,688
<b>Unutilized credit facilities</b>	<b>\$ 222,491</b>	<b>\$ 164,759</b>

(a) Excludes the banking facilities of the Company's equity accounted investments.

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

On March 20, 2013, the Company renewed its Unsecured Committed Bank Credit Facility for a period of five years, with terms and conditions similar to the prior agreement, except that the maximum borrowing limit was raised by US\$100.0 million from US\$150.0 million to US\$250.0 million, with an option to increase the credit limit to US\$400 million with the consent of lenders.

Allowable credit utilization outside of this facility has been reduced from US\$100.0 million to US\$50.0 million.

### Debt Covenants

The Company has undertaken to maintain certain covenants in respect of the Unsecured Committed Bank Credit Facility. Specifically, the Company is required to maintain an Interest Coverage Ratio (Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") plus rental payments divided by interest expense plus rental payments) of more than 2.5 to 1 and a debt to total EBITDA ratio of less than 3.00 to 1. The Company was in compliance with these covenants as at June 30, 2013 and December 31, 2012.

### 12. Commitments and Contingencies

#### Performance, Bid and Surety Bonds

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

The Company utilizes its credit facilities to support its bonds. The Company had utilized credit facilities of \$80.4 million as at June 30, 2013 (December 31, 2012 – \$81.2 million) for support of its bonds.

#### Legal Claims

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

# ShawCor Ltd.

## Notes to the Interim consolidated financial statements

(Unaudited)

### 13. Loans Payable

The following table sets forth the Company's loans payable as at the periods presented:

(in thousands of Canadian dollars)	June 30, 2013	December 31, 2012
<b>Non-current</b>		
Loan payable	\$ 165	\$ 220
Loan payable to associate	1,557	2,444
<b>Total</b>	<b>\$ 1,722</b>	<b>\$ 2,664</b>

### 14. Long-Term Debt

On March 20, 2013, the Company issued Senior Notes for total gross proceeds of US\$350 million (CDN\$358.3 million at the March 20, 2013 foreign exchange rate) to institutional investors as follows:

- (i) US \$100,000 (CDN\$102,380 at the March 20, 2013 foreign exchange rate) aggregate principal amount of 2.98% Senior Notes, Series A, due March 31, 2020 (the "Series A Notes");
- (ii) US \$100,000 (CDN\$102,380 at the March 20, 2013 foreign exchange rate) aggregate principal amount of 3.67% Senior Notes, Series B, due March 31, 2023 (the "Series B Notes");
- (iii) US \$100,000 (CDN\$102,380 at the March 20, 2013 foreign exchange rate) aggregate principal amount of 3.82% Senior Notes, Series C, due March 31, 2025 (the "Series C Notes");
- (iv) US \$50,000 (CDN\$51,190 at the March 20, 2013 foreign exchange rate) aggregate principal amount of 4.07% Senior Notes, Series D, due March 31, 2028 (the "Series D Notes"; and together with the Series A Notes, the Series B Notes, the Series C Notes, collectively, the "Notes").

The total long-term debt balance as at June 30, 2013 is \$366.2 million. The long-term debt has been designated as a hedge of the Company's net investment in a U.S. dollar functional currency subsidiary as described in note 15.

#### Financial Ratios

The Company has undertaken to maintain certain covenants in respect of the long-term debt. These are similar to the debt covenants described in note 11 for the Company's Unsecured Committed Bank Credit Facility.

The Company was in compliance with all of the financial covenants for the long-term debt as at June 30, 2013.

# ShawCor Ltd.

## Notes to the Interim consolidated financial statements

(Unaudited)

### 15. Financial Instruments

(in thousands of Canadian dollars)	Loans and receivables \$	Available- for-sale \$	Fair value – profit or loss \$	Fair value –other comprehensive income \$
<b>Financial assets</b>				
Cash and cash equivalents (note 8)	83,872	–	–	–
Short-term investments	13,336	–	–	–
Loan receivable (note 9)	677	–	–	–
Accounts receivable	353,198	–	–	–
Income taxes receivable	7,720	–	–	–
Derivative financial instruments	–	–	2,297	–
<b>Total current</b>	<b>458,803</b>	<b>–</b>	<b>2,297</b>	<b>–</b>
Loans receivable (note 9)	4,871	–	–	–
Investment in associate	–	–	–	–
<b>Total non-current</b>	<b>4,871</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>463,674</b>	<b>–</b>	<b>2,297</b>	<b>–</b>
<b>Financial liabilities</b>				
Bank indebtedness (note 11)	10,844	–	–	–
Accounts payable and accrued liabilities	236,351	–	–	–
Deferred purchase consideration	–	–	20,720	–
Other provisions	–	–	24,195	–
Income taxes payable	43,957	–	–	–
Derivative financial instruments	–	–	1,855	–
Obligations under finance lease	1,561	–	–	–
<b>Total current</b>	<b>292,713</b>	<b>–</b>	<b>46,770</b>	<b>–</b>
Loans payable (note 13)	1,722	–	–	–
Long-term debt (note 14)	–	–	–	366,160
Obligations under finance lease	13,011	–	–	–
Other provisions	–	–	28,028	–
<b>Total non-current</b>	<b>14,733</b>	<b>–</b>	<b>28,028</b>	<b>366,160</b>
<b>Total</b>	<b>307,446</b>	<b>–</b>	<b>74,798</b>	<b>366,160</b>

### Fair Value

*IFRS 7, Financial Instruments - Disclosure*, provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs are those which reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions with respect to how market participants would price an asset or liability. These two inputs used to measure fair value fall into the following three different levels of the fair value hierarchy:

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

# ShawCor Ltd.

## Notes to the Interim consolidated financial statements

(Unaudited)

The hierarchy requires the use of observable market data when available. The following table presents, for each of the fair value hierarchy levels, the assets and liabilities that are measured at fair value on a recurring basis as at June 30, 2013 and does not include those instruments where the carrying amount is a reasonable approximation of the fair value:

(in thousands of Canadian dollars)	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	\$	\$	\$	\$
<b>Assets</b>				
Derivative financial instruments – current	<u>2,297</u>	–	<u>2,297</u>	–
	<u>2,297</u>	–	<u>2,297</u>	–
<b>Liabilities</b>				
Derivative financial instruments – current	<u>1,855</u>	–	<u>1,855</u>	–
	<u>1,855</u>	–	<u>1,855</u>	–

The current derivative financial instruments relate to foreign exchange forward contracts entered into by the Company (as described below) and are valued by comparing the rates at the time the derivatives are acquired to the period-end rates quoted in the market. The fair values of the Company's remaining financial instruments are not materially different from their carrying values.

The following table presents the changes in the Level 3 fair value category for the period indicated:

(in thousands of Canadian dollars)	<b>Fair value</b>
	\$
<b>Balance – January 1, 2012</b>	2,499
Losses recognized in the consolidated statement of income	(2,499)
<b>Closing balance - December 31, 2012 and June 30, 2013</b>	–

### Foreign Exchange Forward Contracts

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

# ShawCor Ltd.

## Notes to the Interim consolidated financial statements

(Unaudited)

The following table sets out the notional amounts outstanding under foreign exchange contracts, the average contractual exchange rates and the settlement of these contracts as at June 30, 2013:

(in thousands, except weighted average rate amounts)

Canadian dollars sold for US dollars			
Less than one year	CAD	\$	13,310
Weighted average rate			0.98
US dollars sold for Canadian dollars			
Less than one year	US	\$	15,000
Weighted average rate			1.01
US dollars sold for Euros			
Less than one year	US	\$	18,029
Weighted average rate			0.77
US dollars sold for Malaysian Ringgits	US	\$	93,150
Less than one year			3.18
Weighted average rate			
Euros sold for US dollars			
Less than one year	EURO	€	42,521
Weighted average rate			1.30
NOK sold for US dollars			
Less than one year	NOK	nk	116,751
Weighted average rate			0.17

As at June 30, 2013, the Company had notional amounts of \$223.3 million of forward contracts outstanding (December 31, 2012 – \$247.7 million) with the fair value of the Company's net benefit from all foreign exchange forward contracts totalling \$0.4 million (December 31, 2012 – net benefit of \$2.0 million).

### Financial Risk Management

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

### Foreign Exchange Risk

The majority of the Company's business is transacted outside of Canada through subsidiaries operating in several countries. The net investments in these subsidiaries as well as their revenue, operating expenses and non-operating expenses are 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. As at June 30, 2013, fluctuations of +/- 5% in the Canadian dollar, relative to those foreign currencies, would impact the Company's consolidated revenue, income from operations, and net income (attributable to shareholders of the Company) for the quarter ended June 30, 2013 by approximately \$35.4 million, \$10.3 million and \$8.0 million, respectively, prior to hedging activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total equity by \$63.7 million, \$42.7 million and \$21.0 million, respectively.

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 income. The

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Company utilizes foreign exchange forward contracts to manage this foreign exchange risk. The Company does not enter into foreign exchange contracts for speculative purposes. With the exception of the Company's US dollar based operations, the Company does not hedge translation exposures.

### Net Investment Hedge

The Senior Notes have been designated as a hedge of the net investment in one of the Company's subsidiaries, which has the U.S. dollar as its functional currency. During the quarter ended June 30, 2013, a loss of \$10.1 million on the translation of the Notes was transferred to other comprehensive income to offset the losses on translation of the net investment in the subsidiary. There was no ineffectiveness of this hedge for the quarter ended June 30, 2013.

### Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at June 30, 2013:

(in thousands of Canadian dollars)	Non-Interest Bearing \$	Floating Rate \$	Fixed Interest Rate \$	Total \$
<b>Financial assets</b>				
Cash equivalents	–	–	12,734	12,734
Loans receivable	1,620	3,928	–	5,548
	<b>1,620</b>	<b>3,928</b>	<b>12,734</b>	<b>18,282</b>
<b>Financial liabilities</b>				
Bank indebtedness	–	10,844	–	10,844
Loans payable	1,722	–	–	1,722
Long-term debt	–	–	366,160	366,160
	<b>1,722</b>	<b>10,844</b>	<b>366,160</b>	<b>378,726</b>

The Company's interest rate risk arises primarily from its floating rate bank indebtedness and long-term notes receivable and is not currently considered to be material.

### Credit Risk

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

### Liquidity Risk

The Company's objective in managing liquidity risk is to maintain sufficient, readily available cash reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents and through the availability of funding from committed credit facilities. As at June 30, 2013, the Company had cash and cash equivalents totalling \$83.9 million (December 31, 2012 – \$285.0 million) and had unutilized lines of credit available for use of \$224.5 million (December 31, 2012 - \$164.8 million).

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### 16. Share Capital

On March 20, 2013, the Company eliminated its dual class share structure pursuant to a shareholder and court approved Plan of Arrangement (the "Arrangement") through the purchase of all of the Class A and Class B shares of the Company by a newly formed Canadian corporation. The Arrangement eliminated the Company's dual-class share structure through:

- The purchase of all of the issued and outstanding Class A shares in exchange for new common shares ("common shares") on a 1:1 basis; and
- The purchase of all of the issued and outstanding Class B shares in exchange for consideration of \$43.43 in cash or 1.1 common shares per Class B share, such that 90% of the total consideration for the Class B Shares was paid in cash and 10% was paid in common shares. All Class A and B shares were removed from the authorized capital of the Company.

Upon closing, the new corporation and the Company amalgamated, under the name ShawCor Ltd., with the common shares as its only class of share capital. Upon closing, a special dividend of \$1.00 per share was declared on all outstanding common shares which was paid on April 19, 2013.

The Company recognized transaction costs charged directly to retained earnings of \$553.2 million, which was comprised of the \$498.8 million cash payment to the Class B shareholders and the issuance of 1,403,684 common shares to the Class B shareholders with a fair value of \$55.4 million, partially offset by the book value of the Class B shares of \$1.0 million.

In connection with the closing of the Arrangement, the employment terms of the Company's Chair of the Board and indirect controlling shareholder, and of the Company's Vice Chair of the Board, were amended to provide that their employment with the Company's subsidiary would terminate and they would receive severance and other benefits of approximately \$3.4 million and \$3.7 million, respectively.

Under the Arrangement, any stock option outstanding as of March 20, 2013, that had not been duly exercised prior to that date, whether vested or unvested, represents an option (a "**New ShawCor Option**") to purchase the same number of common shares at the same exercise price as applied to the acquisition of Class A Shares pursuant to such option. The term to expiry, conditions to and manner of exercising, vesting schedule and all other terms and conditions of such New ShawCor Option remain unchanged, and any document or agreement previously evidencing the original such options is deemed to evidence such New ShawCor Options.

Any award granted under the employee share unit plan ("**Company ESUP Award**") that had not been settled prior to March 20, 2013, whether vested or unvested, represents a grant (a "**New ShawCor ESUP Award**") in respect of the same number of common shares as applied to the acquisition of Class A shares pursuant to the Company ESUP Award. All other terms and conditions of such New ShawCor ESUP Award remain unchanged, and any document or agreement previously evidencing a Company ESUP Award is deemed to evidence such New ShawCor ESUP Award.

Any grant of deferred share units issued pursuant to the deferred share unit plan ("**Company DSU Grant**") that had not been settled prior to March 20, 2013, represents a unit (a "**New ShawCor DSU Grant**") in respect of the same number of common shares as applied to the acquisition of Class A shares pursuant to the Company DSU Grant. All other terms and conditions of such New ShawCor DSU Grant remain unchanged, and any document or agreement previously evidencing a Company DSU Grant is deemed to evidence such New ShawCor DSU Grant.

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The following table sets forth the Company's share capital continuity schedule prepared on a continuity of interests basis:

(all dollar amounts in thousands of Canadian dollars)		2013		
Number of shares	Class A	Class B	New Common	Total
Balance, December 31, 2012	57,491,070	12,760,635	–	70,251,705
Issued on exercise of stock options	72,440	–	637,750	710,190
Issued on exercise of RSUs	200	–	588	788
Purchase and cancellation of Class A shares	(57,563,710)	–	57,563,710	–
Purchase and cancellation of Class B shares	–	(12,760,635)	1,403,684	(11,356,951)
<b>Balance, June 30, 2013</b>	–	–	59,605,732	59,605,732
<b>Stated value:</b>				
Balance, December 31, 2012	\$ 220,706	\$ 981	\$ –	\$ 221,687
Issued on exercise of stock options	1,372	–	10,810	12,182
Compensation cost on exercised options	531	–	4,147	4,678
Compensation cost on exercised RSUs	5	–	19	24
Cancellation of Class A shares	(222,614)	–	222,614	–
Cancellation of Class B shares	–	(981)	55,419	54,438
<b>Balance, June 30, 2013</b>	\$ –	\$ –	\$ 293,009	\$ 293,009

(all dollar amounts in thousands of Canadian dollars)		2012		
Number of Shares	Class A	Class B	New Common	Total
Balance, January 1, 2012	57,832,572	12,784,335	–	70,616,907
Issued on exercise of stock options	204,060	–	–	204,060
Issued on exercise of RSUs	2,738	–	–	2,738
Conversions of Class B shares into Class A shares	23,700	(23,700)	–	–
Purchase – normal course issuer bid	(572,000)	–	–	(572,000)
<b>Balance, December 31, 2012</b>	57,491,070	12,760,635	–	70,251,705
<b>Stated Value</b>				
Balance, January 1, 2012	\$ 217,398	\$ 983	\$ –	\$ 218,381
Issued - stock options	3,988	–	–	3,988
Compensation cost on exercised options	1,415	–	–	1,415
Compensation cost on exercised RSUs	79	–	–	79
Conversions of Class B shares into Class A shares	2	(2)	–	–
Purchase – normal course issuer bid	(2,176)	–	–	(2,176)
<b>Balance, December 31, 2012</b>	\$ 220,706	\$ 981	\$ –	\$ 221,687

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

Dividends declared and paid for the three months ended June 30, 2013 were \$1.125 per new common share (three months ended June 30, 2012 - \$0.10 per Class A share and \$0.091 per Class B share). Dividends declared and paid for the six months ended June 30, 2013 were \$1.125 per new common share, \$0.10 per Class A share and \$0.091 per Class B share (six months ended June 30, 2012 - \$0.18 per Class A share and \$0.164 per Class B share).



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### 17. Share-based and Other Incentive-based Compensation

As at June 30, 2013, the Company had the following stock option plan, which was initiated in 2001:

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

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

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

#### Stock Options without Tandem Share Appreciation Rights

	Six Months Ended June 30, 2013		Year Ended December 31, 2012	
	Total Shares	Weighted Average Exercise Price	Total Shares	Weighted Average Exercise Price
<b>Balance outstanding, beginning of period</b>	<b>2,106,140</b>	<b>\$ 21.83</b>	2,164,600	\$ 20.67
Granted	151,900	41.28	187,000	32.81
Exercised	(710,190)	17.59	(204,060)	19.55
Forfeited	—	—	(41,400)	22.36
<b>Balance outstanding, end of period</b>	<b>1,547,850</b>	<b>25.88</b>	2,106,140	21.83
Options exercisable	1,100,194	\$ 22.95	1,585,292	\$ 20.03

Range of Exercise Prices	Options outstanding			Options exercisable		
	Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable	Weighted Average Exercise Price	
\$10.00 to \$15.00	—	—	\$ —	—	\$ —	—
\$15.01 to \$20.00	593,270	3.80	16.27	512,470	16.40	
\$20.01 to \$25.00	11,400	4.59	21.60	7,400	21.42	
\$25.01 to \$30.00	492,020	4.03	27.68	492,020	27.68	
\$30.01 to \$35.00	197,000	8.28	32.76	47,400	32.59	
\$35.01 to \$40.00	102,260	7.48	37.32	40,904	37.32	
\$40.01 to \$45.00	151,900	9.48	41.28	—	—	
	<b>1,547,850</b>	<b>5.25</b>	<b>\$ 25.88</b>	<b>1,100,194</b>	<b>\$ 22.95</b>	

# ShawCor Ltd.

## Notes to the Interim consolidated financial statements

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December 31, 2012	Options outstanding			Options exercisable		
	Range of Exercise Prices	Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable	Weighted Average Exercise Price
\$10.00 to \$15.00	236,400	0.70	\$ 12.01	236,400	\$ 12.01	
\$15.01 to \$20.00	916,980	3.86	16.32	742,580	16.49	
\$20.01 to \$25.00	44,000	3.54	21.00	40,000	20.91	
\$25.01 to \$30.00	589,500	4.55	27.71	521,860	27.43	
\$30.01 to \$35.00	217,000	8.45	32.67	24,000	31.77	
\$35.01 to \$40.00	102,260	8.00	37.32	20,452	37.32	
	2,106,140	4.37	\$ 21.83	1,585,292	\$ 20.03	

The Board approved the granting of 151,900 stock options during the six months ended June 30, 2013 under the 2001 Employee Plan. The total weighted average fair value of the stock options granted during the six months ended June 30, 2013 was \$1.9 million (six months ended June 30, 2012 – \$2.0 million) and was calculated using the Black-Scholes option pricing model with the following assumptions:

	Six Months Ended June 30,	
	2013	2012
Weighted average share price	\$ 41.28	\$ 32.81
Exercise price	\$ 41.28	\$ 32.81
Expected life of options in years	6.25	7.25
Expected stock price volatility	34%	35%
Expected dividend yield	0.9%	0.9%
Risk-free interest rate	1.6%	1.7%

The volatility measured at the standard deviation of continuously compounded share returns is based on the statistical analysis of daily share prices over the last ten years. The fair value of options granted under the Plan will be amortized to compensation expense over the five-year vesting period of the options. The compensation cost from the amortization of granted stock options for the six months ended June 30, 2013, included in selling, general and administrative expenses, was \$0.8 million (six months ended June 30, 2012 – \$0.7 million).

### Stock Options with Tandem Share Appreciation Rights

	Six Months Ended June 30, 2013		Year Ended December 31, 2012	
	Total Shares	Weighted Average Fair Value <sup>(a)</sup>	Total Shares	Weighted Average Fair Value <sup>(a)</sup>
Balance outstanding, beginning of period	223,200	\$ 12.56	154,300	\$ 12.93
Granted	32,300	13.35	68,900	11.74
Exercised in cash	(134,700)	14.01	–	–
Balance outstanding, end of period	120,800	14.62	223,200	12.56
Options exercisable	53,100	\$ 15.09	54,560	\$ 9.56

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

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The mark-to-market liability for the stock options with SARs as at June 30, 2013 is \$1.0 million (December 31, 2012 - \$1.6 million), all of which is included in the provisions account on the interim consolidated balance sheets.

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

### LTIP

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

### VGP

The VGP is a cash-based awards plan, which rewards executives and key employees for improving operating income and revenue over a three-year performance period. Units granted to participants vest at the end of the third year of the performance period for which they were granted. The value of units is determined based on the growth rate in operating income and revenue on a cumulative basis for the three consecutive years that comprise the performance period and is measured against the prior three year baseline period. Compensation cost is recognized on a straight-line basis over the vesting period. All units granted under the VGP will be classified as liability instruments in accordance with IFRS as their terms require that they be settled in cash.

The liability as at June 30, 2013 is \$17.7 million (December 31, 2012 - \$12.3 million).

### ESUP

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

During the second quarter of 2012, the Company issued 251,284 PSUs to consultants, which were cancelled in the fourth quarter of 2012. The following table sets forth the Company's RSUs/PSUs reconciliation for the periods presented:

	Six Months Ended June 30, 2013		Year Ended December 31, 2012	
	Total Shares	Weighted Average Fair Value <sup>(a)(b)</sup>	Total Shares	Weighted Average Fair Value <sup>(a)</sup>
Balance outstanding, beginning of period	134,987	\$ 30.79	93,289	\$ 30.34
Granted	37,253	37.93	306,695	32.85
Exercised	(788)	30.90	(2,738)	28.97
Forfeited	–	–	(10,975)	31.96
Cancelled	–	–	(251,284)	33.11
Balance outstanding, end of period	171,452	\$ 32.34	134,987	\$ 30.79
<b>RSU/PSUs exercisable</b>	<b>28,359</b>	<b>29.52</b>	<b>14,984</b>	<b>\$ 29.98</b>

(a) RSU awards do not have an exercise price; as a result, weighted average grant date fair value has been calculated.

(b) PSU awards do not have an exercise price; their weighted average fair value is the closing stock price on the reporting date.

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### DSU

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

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

The following table sets forth the Company's DSU reconciliation for the periods presented:

	Six Months Ended June 30, 2013		Year Ended December 31, 2012	
	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>
Balance outstanding, beginning of period	97,421	\$ 31.61	60,924	\$ 28.45
Granted	21,631	40.92	36,497	36.87
Exercised (b)	(10,740)	32.40	—	—
Balance outstanding, end of period	108,312	\$ 33.39	97,421	\$ 31.61
DSUs exercisable	—	\$ —	—	\$ —

(a) DSU awards do not have an exercise price; as a result, weighted average grant date fair value has been calculated.

(b) DSU awards cannot be exercised while the director is still a member of the Board.

The mark-to-market liability for the DSUs as at June 30, 2013 is \$4.6 million (December 31, 2012 - \$3.8 million), all of which is included in the provision account on the interim consolidated balance sheets.

### Incentive-based Compensation

The following table sets forth the incentive-based compensation expense recorded for the periods indicated:

(in thousands of Canadian dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013		2012	
Stock option expense	\$ 418	\$ 454	\$ 816	\$ 746
VGP expense	2,880	2,233	8,241	3,427
DSU expense	240	686	1,091	1,124
RSU/PSU expense	224	485	455	681
SAR expense	582	126	755	228
Total incentive-based compensation expense	\$ 4,344	\$ 3,984	\$ 11,358	\$ 6,206

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### 18. Earnings per Share ("EPS")

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

(in thousands of Canadian dollars except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income used to calculate EPS				
Net income for the period	\$ 53,914	\$ 21,377	\$ 124,509	\$ 44,624
Weighted average number of shares outstanding – basic (000's)	59,404	70,574	64,192	70,613
Dilutive effect of stock options	714	696	840	686
Weighted average number of shares outstanding – diluted (000's)	60,118	71,270	65,032	71,299
Basic EPS	\$ 0.91	\$ 0.30	\$ 1.94	\$ 0.63
Diluted EPS	\$ 0.90	\$ 0.30	\$ 1.91	\$ 0.63

### 19. Comparative Interim consolidated financial statements

The comparative interim consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the June 30, 2013 interim consolidated financial statements.