ShawCor Ltd.
Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis ("MD&A") is a discussion of the consolidated financial position and results of operations of ShawCor Ltd. ("ShawCor" or "the Company") for the three month and six month periods ended June 30, 2013 and 2012 and should be read together with ShawCor's interim unaudited consolidated financial statements and accompanying notes for the same periods and the MD&A included in the Company's 2012 Annual Report. All dollar amounts in this MD&A are in thousands of Canadian dollars except per share amounts or unless otherwise stated.

This MD&A and the interim unaudited consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, which are also generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada. This MD&A contains forward looking information and reference should be made to section 11 hereof. As at January 1, 2013, the Company adopted certain new IFRS standards that were implemented with a transition date of January 1, 2012; accordingly the financial information for periods within the year 2012 has been restated to be in accordance with the new IFRS standards that were adopted on January 1, 2013. Please refer to section 5.3 – New Accounting Standards Adopted for more information.

1.0 Executive Overview

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 seventy-five manufacturing, sales and service facilities located around the world. The Company is publicly traded on the Toronto Stock Exchange ("TSX").

1.1 Core Businesses

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

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

The Company operates in a highly competitive international business environment with its success attributed to its strategic global locations, its extensive portfolio of proprietary technologies and its commitment to the use of industry-leading business processes and programs. ShawCor is the world's largest applicator of pipeline coatings for the oil and gas industry for both onshore and offshore pipelines.

The primary driver of demand for the Company's products and services is the level of energy industry investment in pipeline infrastructure for hydrocarbon development and transportation around the globe. This investment, in turn, is driven by global levels of economic activity and the resulting growth in hydrocarbon demand, the impact of resource depletion on the supply of hydrocarbons and the financial position of the major energy companies. The relationship between global hydrocarbon demand and supply and the level of energy industry investment in infrastructure tends to be cyclical.

As at June 30, 2013, the Company operated its eight divisions through two reportable operating segments: Pipeline and Pipe Services; and Petrochemical and Industrial.

Pipeline and Pipe Services

The Pipeline and Pipe Services segment is the largest segment of the Company and accounted for 91% of consolidated revenue for the three months ended June 30, 2013. This segment includes the Bredero Shaw, Canusa-CPS, Shaw Pipeline Services, Flexpipe Systems, Guardian, and Socotherm divisions.

- Bredero Shaw's product offerings include specialized internal anticorrosion and flow efficiency pipe coating systems, insulation coating systems, weight coating systems and custom coating and field joint application services for onshore and offshore pipelines.

- Canusa-CPS manufactures heat-shrinkable sleeves, adhesives, sealants and liquid coatings for corrosion protection on onshore and offshore pipelines.

- Shaw Pipeline Services provides ultrasonic and radiographic pipeline girth weld inspection services to pipeline operators and construction contractors worldwide for both onshore and offshore pipelines.

- Flexpipe Systems manufactures spoolable composite pipe systems used for oil and gas gathering, water disposal, carbon dioxide injection pipelines and other applications requiring corrosion resistance and high pressure capabilities.

- Guardian provides a complete range of tubular management services including inventory management systems, mobile inspection, in-plant inspection and the refurbishment and rethreading of drill pipe, production tubing and casing.

- Socotherm provides specialized thermal insulation coatings, anticorrosion coatings, internal coatings, and concrete weight coatings for onshore and offshore pipelines.

Petrochemical and Industrial

The Petrochemical and Industrial segment, which includes the DSG-Canusa and ShawFlex divisions, accounted for 9% of consolidated revenue for the three months ended June 30, 2013. Operations within this segment utilize polymer and adhesive technologies that were developed for the Pipeline and Pipe Services segment and are now being applied to applications in Petrochemical and Industrial markets.

- DSG-Canusa is a global manufacturer of heat-shrinkable products including thin, medium and heavy-walled tubing, sleeves and molded products as well as heat-shrink accessories and equipment.

- ShawFlex is a manufacturer of wire and cable for control, instrumentation, thermocouple, power, marine and robotics applications.

2.0 Financial Highlights

2.1 Selected Second Quarter Financial Information

(in thousands of Canadian dollars)		Three Months Ended June 30, 2013		Three Months Ended June 30, 2012 (Restated Section 5.4)		Six Months Ended June 30, 2013		Six Months Ended June 30, 2012 (Restated Section 5.4)
Revenue	**$**	**457,261**	$	326,923	**$**	**911,942**	$	639,191
Cost of goods sold and services rendered		**265,016**		213,134		**515,055**		407,214
Gross profit		**192,245**		113,789		**396,887**		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**		–
Income from Operations		**78,536**		23,232		**167,661**		53,786
Gain on investment in associate		**–**		1,450		–		2,718
Income (loss) in investment in joint ventures		**794**		(480)		**123**		(360)
Finance (cost) income, net		**(4,149)**		730		**(4,998)**		432
Income before income taxes		**75,181**		24,932		**162,786**		56,576
Income taxes		**21,659**		4,441		**38,738**		11,952
Non-controlling interest		**(392)**		(886)		**(461)**		–
Net Income[(a)]	**$**	**53,914**	$	21,377	**$**	**124,509**	$	44,624
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Add:								
Non-controlling interest		**(392)**		(886)		**(461)**		–
Income taxes		**21,659**		4,441		**38,738**		11,952
Finance (cost) income, net		**4,149**		(730)		**4,998**		(432)
Gain on assets held for sale		**1,795**		–		**1,292**		–
Amortization of property, plant, equipment and intangible assets		**20,404**		12,192		**36,728**		23,867
EBITDA[(b)]	**$**	**101,529**	$	36,394	**$**	**205,804**	$	80,011
Per Share Information:								
Net Income								
Basic	**$**	**0.91**	$	0.30	**$**	**1.94**	$	0.63
Diluted	**$**	**0.90**	$	0.30	**$**	**1.91**	$	0.63

a) Attributable to shareholders of the Company.

b) Earnings before interest, income taxes, depreciation and amortization ("EBITDA") is a non-GAAP measure and should not be considered as an alternative to net income or any other measure of performance under GAAP. Non-GAAP measures do not have standardized meanings under IFRS. The Company's method of calculating these measures may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. Refer to section 9 - Reconciliation of non-GAAP measures, for additional information with respect to non-GAAP measures used by the Company.

(in thousands of Canadian dollars)		June 30, 2013		December 31, 2012 (Restated Section 5.4)
Total Assets	**$**	**1,684,811**	$	1,890,515
Total Non-current Liabilities		**539,229**		211,900

Revenue

Consolidated revenue increased 40%, or $130.3 million, from $326.9 million during the second quarter of 2012 to $457.3 million during the second quarter of 2013, due to an increase of $129.5 million, or 45%, in the Pipeline and Pipe Services segment, and an increase of $0.8 million, or 2%, in the Petrochemical and Industrial segment.

Consolidated revenue increased by $272.9 million, or 43%, from $639.2 million for the six month period ended June 30, 2012 to $911.9 for the six month period ended June 30, 2013, due to an increase of $ 271.3 million, or 48%, in the Pipeline and Pipe Services segment and $1.6 million, or 2%, in the Petrochemical and Industrial segment.

Income from Operations

Operating Income increased by $55.3 million from $23.2 million in the second quarter of 2012 to $78.5 million during the second quarter of 2013. Operating income benefited from a year over year increase in gross profit of $78.5 million and an increase in the net foreign exchange gain of $1.6 million. This was partially offset by increases in selling, general and administration expenses ("SG&A") of $14.3 million, research and development expenses of $0.5 million, amortization of property, plant, equipment and intangible assets of $8.2 million and a loss on assets held for sale of $1.3 million.

The increase in gross profit resulted from higher revenue of $130.3 million and a 7.2 percentage point improvement in gross margin attributable to favourable product and project mix and better facility utilization and absorption of overheads.

SG&A expenses increased by $14.3 million compared with the second quarter of 2012, as a result of higher SG&A costs of $4.6 million following the acquisition and full consolidation of Socotherm, higher personnel related costs and management incentive compensation expenses of $5.4 million, legal and professional consulting fees of $2.2 million and increased provisions for bad debts and other items of $2.1 million.

Operating Income increased by $113.9 million from the six month period ended June 30, 2012 to $167.7 million during the comparable period in 2013. Operating income benefited from a year over year increase in gross profit of $164.9 million and an increase in the net foreign exchange gain increased by $1.3 million. This was partially offset by increases in SG&A expenses of $37.2 million, research and development expenses of $1.3 million, amortization of property, plant, equipment and intangible assets of $8.2 million and a loss on assets held for sale of $1.7 million.

The increase in gross profit resulted from higher revenue of $272.8 million and a 7.2 percentage point improvement in gross margin attributable to favourable project mix and better facility utilization and absorption of overheads.

SG&A expenses increased by $37.2 million in 2013 compared to 2012, as a result of higher SG&A costs of $8.3 million following the acquisition and full consolidation of Socotherm, one time costs of $7.6 million incurred to complete the Company's Plan of Arrangement on March 20, 2013 and related expenses associated with amended executive retirement arrangements of $ 5.0 million, higher personnel related costs and management incentive compensation expenses of $10.8 million, legal and professional consulting fees of $3.0 and increased provisions for bad debts and other items of $1.7 million.

Net Income

Second Quarter 2013 versus Second Quarter 2012

Net income increased by $32.5 million, from $21.4 million during the second quarter of 2012 to $53.9 million during the second quarter of 2013, mainly due to higher operating income in the second quarter of 2013 as explained above, and a net increase in income in investment in joint ventures of $1.3 million. This was partially offset by increases in net finance costs of $4.9 million and income tax expense of $17.2 million.

Six Months ended June 30, 2013 versus Six Months ended June 30, 2012

Net income increased by $79.9 million, from $44.6 million during the six-month period ended June 30, 2012 to $124.5 million during the six-month period ended June 30, 2013, mainly due to higher operating income in the first six months of 2013 as explained above. This was partially offset by increases in net finance costs of $5.4 million and income tax expense of $26.8 million.

2.2 Foreign Exchange Impact

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

	Three Months ended June 30,		Six Months ended June 30,	
	2013	2012	**2013**	2012
U.S. dollar	**1.0279**	1.0092	**1.0195**	1.0098
Euro	**1.3339**	1.2992	**1.3359**	1.3086
British Pounds	**1.5703**	1.5955	**1.5751**	1.5858

The following table sets forth the impact on revenue, income from operations and net income, compared with the prior year period, as a result of foreign exchange fluctuations on the translation of foreign currency operations:

(in thousands of Canadian dollars)		**Q2-2013 Versus Q1-2013**	**Q2-2013 versus Q2-2012**	**Q2-2013 YTD versus Q2-2012 YTD**
Revenue	$	**4,754**	7,500	9,025
Income from operations		**1,619**	2,081	2,835
Net income		**1,445**	1,778	2,708

In addition to the translation impact noted above, the Company recorded a foreign exchange gain of $1.2 million in the second quarter of 2013, compared to a loss of $0.4 million for the comparable period in the prior year, as a result of the impact of changes in foreign exchange rates on monetary assets and liabilities and short term foreign currency intercompany loans within the group, net of hedging activities.

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3.0 Results from Operations

3.1 Business Developments for the Period

ShawCor Names New Chair & Vice Chair

On April 15, 2013, Ms. Virginia L. Shaw and Mr. Leslie W. J. Hutchison, the Chair and Vice Chair, respectively, of the Company's Board of Directors, advised that they would not stand for re-election to the Board at the Company's annual meeting of shareholders scheduled for May 16, 2013. Ms. Shaw was a director of the Company since 1994 and its Chair since 2007. She was preceded as Chair by her father, Leslie Shaw (1987 to 2007) and her uncle, JR Shaw (1969 to 1987). Mr. Hutchison was a director and Vice Chair of the Company since 2008 and from 2001 to 2008 he served as a senior executive with two of the Company's divisions.

Including stock splits and reinvestment of dividends, the Company has generated an average annual total return to shareholders of 13.7% from its inception as a public company in February 1969 to the end of 2012. This performance represents an enduring legacy of the Shaw family's stewardship of ShawCor.

On May 16, 2013, the Company’s Board of Directors appointed independent director John F. (Jack) Petch as its new Chair of the Board. Mr. Petch joined the ShawCor Board in 2005 and has previously served as its Lead Director, Chair of the Corporate Governance Committee and Chair of the Special Committee which was constituted in the fall of 2012 in connection with ShawCor's strategic review process.

Another independent director, Robert J. Ritchie, was appointed Vice Chair of the Board. Mr. Ritchie joined the ShawCor Board in 1994, previously served as the Chair of its Audit Committee and currently serves as the Chair of its Compensation Committee.

Significant Business Contracts

In June 2013, the Company was awarded a contract with a value of approximately US$30 million from Statoil Norway to provide pipeline coatings for the Edvard Grieg Oil Pipeline project and the Utsira High Gas Pipeline project. These pipelines will transport oil and gas from the Edvard Grieg and Ivar Aasen fields. The gas will be transported to St. Fergus through a tie in of the Utsira High Gas Pipeline to the Sage system and the oil will be transported to Sture, Norway, through a tie in of the Edvard Grieg Oil Pipeline to the existing Grane Oil Pipeline. The Edvard Grieg field (formerly Luno) is located in the Utsira High area of the Norwegian North Sea. The contract will be executed at the Bredero Shaw pipe coating facility in Leith, Scotland. This contract involves coating approximately 98km of 16" pipe and 46km of 29" pipe with 3-layer polypropylene anticorrosion coating, internal flow efficiency coating and concrete weight coating. Coating will commence during the fourth quarter of 2013.

Acquisition of Remaining 49% of Socotherm LaBarge LLC

On April 15, 2013, the Company completed the acquisition of the remaining 49% of Socotherm S.p.A's joint venture in the USA for total consideration of approximately $30 million, including the assumption of bank debt. The 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.

3.2 Consolidated Information

Revenue

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

(in thousands of Canadian dollars)	Three months ended			Six months ended	
	June 30, 2013	March 31, 2013	June 30, 2012[(a)]	**June 30, 2013**	June 30, 2012[(a)]
Pipeline and Pipe Services	**$ 417,443**	$ 416,674	$ 287,931	**$ 834,117**	$ 562,828
Petrochemical and Industrial	**40,351**	38,572	39,528	**78,923**	77,281
Elimination	**(533)**	(565)	(536)	**(1,098)**	(918)
	$ 457,261	$ 454,681	$ 326,923	**$ 911,942**	$ 639,191

a) Revenue for the three-month and six-month periods ending June 30, 2012 has been restated due to the adoption of certain new IFRS standards that became effective as at January 1, 2013, but were implemented retrospectively to January 1, 2012. Please refer to Section 5.3 for additional information.

Second Quarter 2013 versus First Quarter 2013

Consolidated revenue increased 1%, or $2.6 million, from $454.7 million during the first quarter of 2013 to $457.3 million during the second quarter of 2013, due to an increase of $0.8 million in the Pipeline and Pipe Services segment and an increase of $1.8 million, or 5%, in the Petrochemical and Industrial segment.

In the Pipeline and Pipe Services segment, revenue was slightly higher in the second quarter of 2013 than in the first quarter of 2013, as a result of increased activity in Asia Pacific and EMAR, partially offset by lower revenue in North America and Latin America. See section 3.3.1 – *Pipeline and Pipe Services segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

In the Petrochemical and Industrial segment, revenue was slightly higher in the second quarter of 2013 than in the first quarter of 2013, mainly due to slightly higher activity levels in all three regions. See section 3.3.2 – *Petrochemical and Industrial segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

Second Quarter 2013 versus Second Quarter 2012

Consolidated revenue increased by $130.3 million, or 40%, from $326.9 million during the second quarter of 2012 to $457.3 million during the second quarter of 2013, due to an increase of $129.5 million, or 45%, in the Pipeline and Pipe Services segment and an increase of $0.8 million, or 2%, in the Petrochemical and Industrial segment.

In the Pipeline and Pipe Services segment, revenue in the second quarter of 2013 was higher than in the second quarter of 2012, primarily due to increased activity in Asia Pacific, Latin America and North America, partially offset by lower

revenue in EMAR. See section 3.3.1 – *Pipeline and Pipe Services segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

In the Petrochemical and Industrial segment, revenue increased by $0.8 million during the second quarter of 2013 compared to the second quarter of 2012, due to slightly higher activity levels in EMAR and Asia Pacific, partially offset by lower revenue in North America. See section 3.3.2 – *Petrochemical and Industrial segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

Six Months ended June 30, 2013 versus Six Months ended June 30, 2012

Consolidated revenue increased by $272.9 million, or 43%, from $639.1 million for the six month period ended June 30, 2012 to $911.9 million for the six month period ended June 30, 2013, due to an increase of $ 271.3 million, or 48%, in the Pipeline and Pipe Services segment and $1.6 million, or 2%, in the Petrochemical and Industrial segment.

Revenue for the Pipeline and Pipe Services segment in 2013 was $834.1 million, or $271.3 million higher than in 2012, primarily due to higher revenue in Asia Pacific, North America and Latin America, partially offset by lower activity in EMAR. See section 3.3.1 – *Pipeline and Pipe Services segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

Revenue for the Petrochemical and Industrial segment increased by $1.6 million in 2013 compared to 2012, primarily due to higher activity levels in all regions. See section 3.3.2 – *Petrochemical and Industrial segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

Income from Operations

The following table sets forth income from operations ("Operating Income") and Operating Margin for the following periods:

(in thousands of Canadian dollars)	Three months ended			Six months ended	
	June 30, 2013	March 31, 2013	June 30, 2012 [(a)]	**June 30, 2013**	June 30, 2012 [(a)]
Operating Income	**$ 78,536**	$ 89,125	$ 23,232	**$ 167,661**	$ 53,786
Operating Margin[(a)]	**17.2%**	19.6%	7.1%	**18.4%**	8.4%

a) Operating Income for the three-month and six-month periods ending 30, 2012 has been restated due to the adoption of certain new IFRS standards that became effective as at January 1, 2013, but were implemented retrospectively to January 1, 2012. Please refer to Section 5.3 for additional information.
b) Operating Margin is defined as Operating Income divided by revenue.

Second Quarter 2013 versus First Quarter 2013

Operating Income in the second quarter of 2013 decreased by $10.6 million, from $89.1 million during the first quarter of 2013 to $78.5 million. Operating income was impacted by a decrease in gross profit of $12.4 million, higher amortization of property, plant, equipment and intangible assets of $4.1 million and an increase in the loss on assets held for sale of $2.3 million. This was partially offset by a decrease in SG&A expenses of $6.4 million and an increase in net foreign exchange gains of $2.0 million.

The decrease in gross profit resulted from a reduction in the gross margin percentage, which declined by 3.0 percentage points from the first quarter of 2013. Approximately half of the reduction in gross margin percentage was the result of start up costs at Socotherm facilities in the USA and Italy while the remainder of the gross margin decrease was due to lower utilization of Canadian pipe coating plants and the Company's flexible composite pipe plant due to reduced demand in Western Canada. Both factors are not expected to continue in the second half of 2013.

SG&A expenses decreased by $6.4 million, from $94.9 million (restated from $91.5 million previously reported to reclassify some of Socotherm's expenses from cost of goods sold to SG&A to conform with ShawCor presentation) in the first quarter of 2013 to $88.6 million in the second quarter of 2013, primarily due to one time costs recorded in the first quarter of $7.6 million incurred to complete the Company's Plan of Arrangement on March 20, 2013, and related expenses associated with amended executive retirement arrangements of $ 5.0 million. This reduction in SG&A was partially offset by higher personnel related costs of $1.5 million (primarily severance costs on closure of a DSG Canusa facility in Europe), higher SG&A costs following the acquisition and full consolidation of the Socotherm Channelview facility of $1.8 million, increased legal fees of $1.1 million associated with a Socotherm arbitration case, and an increase in provisions for bad debts and other items of $1.8 million.

Second Quarter 2013 versus Second Quarter 2012

Operating Income increased by $55.3 million from $23.2 million in the second quarter of 2012 to $78.5 million during the second quarter of 2013. Operating income benefited from a year over year increase in gross profit of $78.5 million and an increase in the net foreign exchange gain of $1.6 million. This was partially offset by increases in SG&A expenses of $14.3 million, research and development expenses of $0.5 million, amortization of property, plant, equipment and intangible assets of $8.2 million and a loss on assets held for sale of $1.3 million.

The increase in gross profit resulted from higher revenue of $130.3 million and a 7.2 percentage point improvement in gross margin attributable to favourable product and project mix and better facility utilization and absorption of overheads.

SG&A expenses increased by $14.3 million compared with the second quarter of 2012, as a result of higher SG&A costs of $4.6 million following the acquisition and full consolidation of Socotherm, higher personnel related costs and management incentive compensation expenses of $5.4 million, legal and professional consulting fees of $2.2 million and increased provisions for bad debts and other items of $2.1 million.

Six Months ended June 30, 2013 versus Six Months ended June 30, 2012

Operating Income increased by $113.9 million from the six month period ended June 30, 2012 to $167.7 million during the comparable period in 2013. Operating income benefited from a year over year increase in gross profit of $164.9 million and an increase in the net foreign exchange gain increased by $1.3 million. This was partially offset by increases in SG&A expenses of $37.2 million, research and development expenses of $1.3 million, amortization of property, plant, equipment and intangible assets of $8.2 million and a loss on assets held for sale of $1.7 million.

The increase in gross profit resulted from higher revenue of $272.8 million and a 7.2 percentage point improvement in gross margin attributable to favourable project mix and better facility utilization and absorption of overheads.

SG&A expenses increased by $37.2 million in 2013 compared to 2012, as a result of higher SG&A costs of $8.3 million following the acquisition and full consolidation of Socotherm, one time costs of $7.6 million incurred to complete the Company's Plan of Arrangement on March 20, 2013 and related expenses associated with amended executive retirement arrangements of $ 5.0 million, higher personnel related costs and management incentive compensation expenses of $10.8 million, legal and professional consulting fees of $3.0 and increased provisions for bad debts and other items of $1.7 million.

Finance Costs, net

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

(in thousands of Canadian dollars)	Three months ended			Six months ended	
	June 30, 2013	March 31, 2013	June 30, 2012[a]	**June 30, 2013**	June 30, 2012[a]
Interest Income on short-term deposits	**$ (234)**	$ (470)	$ (999)	**$ (704)**	$ (1,093)
Interest expense, other	**1,220**	919	269	**2,138**	661
Interest expense on long-term debt	**3,163**	400	–	**3,564**	–
Finance costs (income), net	**$ 4,149**	$ 849	$ (730)	**$ 4,998**	$ (432)

a) Finance cost (income) for the three-month periods ending December 31, 2012 and June 30, 2012 has been restated due to the adoption of certain new IFRS standards that became effective as at January 1, 2013, but were implemented retrospectively to January 1, 2012. Please refer to Section 5.3 for additional information.

Second Quarter 2013 versus First Quarter 2013

In the second quarter of 2013, net finance cost was $4.1 million, compared to a net finance cost of $0.8 million during the first quarter of 2013, as a result of higher interest on long term senior notes issued on March 20, 2013, higher other interest expenses on bank loans and overdrafts and lower interest income on short-term deposits.

Second Quarter 2013 versus Second Quarter 2012

In the second quarter of 2013, net finance cost was $4.1 million, compared to a net finance income of $0.7 million during the second quarter of 2012. The increase in net finance costs was a result of interest on long term senior notes issued on March 20, 2013, higher other interest expenses on bank loans and overdrafts and lower interest income on short-term deposits.

Six Months ended June 30, 2013 versus Six Months ended June 30, 2012

In the six months ended June 30, 2013, net finance cost was $5.0 million, compared to a net finance income of $0.4 million during the comparable period of 2012, as a result of interest on long term senior notes issued on March 20, 2013, higher other interest expenses on bank loans and overdrafts and lower interest income on short-term deposits.

Income Taxes

Second Quarter 2013 versus First Quarter 2013

The Company recorded an income tax expense of $21.7 million (29% of income before income taxes) in the second quarter of 2013, compared to an income tax expense of $17.1 million (20% of income before income taxes) in the first quarter of 2013. The effective tax rate in the second quarter of 2013 was higher than the Company's expected effective income tax rate of 27%, primarily due to the incurrence of tax losses in jurisdictions where the Company is unable to record a tax benefit.

Second Quarter 2013 versus Second Quarter 2012

The Company recorded an income tax expense of $21.7 million (29% of income before income taxes) in the second quarter of 2013, compared to an income tax expense of $4.4 million (18% of income before income taxes) in the second quarter of 2012. The effective tax rate in the second quarter of 2013 was higher than the Company's expected effective income tax rate of 27%, primarily due to the incurrence of tax losses in jurisdictions where the Company is unable to record a tax benefit.

Six Months ended June 30, 2013 versus Six Months ended June 30, 2012

The Company recorded an income tax expense of $38.7 million (24% of income before income taxes) during the six-month period ended June 30, 2013, compared to an income tax expense of $12.0 million (21% of income before income taxes) during the six-month period ended June 30, 2012. The effective income tax rate for the six months ending June 30, 2013 is lower than the expected income tax rate of 27% due to a portion of the Company’s taxable income being earned in the Trinidad Free Zone, Asia Pacific, the Middle East and other jurisdictions where the tax rate is 25% or less.

3.3 Segment Information

3.3.1 Pipeline and Pipe Services Segment

The following table sets forth, by geographic location, the Revenue, Operating Income and Operating Margin for the Pipeline and Pipe Services segment for the following periods:

(in thousands of Canadian dollars)	Three months ended			Six months ended	
	June 30, 2013	March 31, 2013	June 30, 2012[(a)]	**June 30, 2013**	June 30, 2012[(a)]
North America	**$ 149,919**	$ 157,355	$ 146,054	**$ 307,274**	$ 300,370
Latin America	**37,071**	60,319	21,990	**97,390**	36,924
EMAR	**52,177**	34,039	68,661	**86,216**	127,090
Asia Pacific	**178,276**	164,961	51,226	**343,237**	98,444
Total Revenue	**$ 417,443**	$ 416,674	$ 287,931	**$ 834,117**	$ 562,828
Operating Income	**$ 85,945**	$ 109,226	$ 26,784	**$ 195,171**	$ 64,065
Operating Margin	**20.6%**	26.2%	9.3%	**23.4%**	11.4%

a) Restated due to the adoption of certain new IFRS standards that became effective as at January 1, 2013, but were implemented retrospectively to January 1, 2012.

Second Quarter 2013 versus First Quarter 2013

In the second quarter of 2013, revenue was $417.4 million, $0.8 million higher than in the first quarter of 2013. This was driven by increased activity levels in Asia Pacific and EMAR, partially offset by lower activity levels in North America and Latin America:

- In North America, revenue decreased by $7.4 million, or 4.7%, as a result of decreased small diameter pipe coating activity and lower flexible composite pipe volumes in Canada due to lower well completion activity associated with spring break up, partially offset by higher pipe weld service revenue.

- Latin America revenue decreased by $23.2 million, or 38.5%, primarily as a result of lower activity from the Technip project in Trinidad, partially offset by higher offshore pipe coating activity in Mexico.

- In EMAR, revenue increased by $18.1 million, or 53%, primarily due to increased activity at the Company's pipe coating facilities in Leith, Scotland and in Ras Al Khaimah ("RAK"), UAE.

- Asia Pacific revenue increased $13.3 million, or 8%, mainly due to increased volumes on the Chevron Wheatstone flowlines project and the commencement of production on a large project for PTT Provincial Gas Transmission.

Operating Income in the second quarter of 2013 was $85.9 million compared to $109.2 million in the first quarter of 2013, a decrease of $23.3 million, or 21%. Revenue increased by $0.8 million as explained above, however operating income was impacted by a decrease in the gross margin percentage of 3.0 percentage points and the Company incurred higher amortization expenses on property, plant, equipment and intangible assets and a net higher loss on assets held for sale, as explained in section 3.2 above.

Second Quarter 2013 versus Second Quarter 2012

In the second quarter of 2013, revenue was $417.4 million, an increase of $129.5 million, or 45%, from $287.9million in the second quarter of 2013. Revenues in Asia Pacific and North America were higher, partially offset by decreases in EMAR and Latin America revenue:

- North America revenue increased by $3.9 million, or 3%, due to increased flexible composite pipe volumes and pipe weld inspection service revenue in the US, partially offset by lower small diameter pipe coating activity in the Gulf of Mexico compared to the second quarter of 2012.

- In Latin America, revenue increased by $15.0 million, or 69%, primarily due to the inclusion of revenue from Argentina as a result of the Socotherm acquisition.

- EMAR revenue decreased by $16.5 million, or 24%, primarily due to decreased activity at the Company's pipe coating facility in RAK on the Barzan project, partially offset by increased volumes from Leith, Scotland on the Mafumeira Sul project.

- In Asia Pacific, revenue increased by $127.1 million, or 248%, in the second quarter of 2013, due to the increase in volumes associated with the Inpex Ichthys and Chevron Wheatstone projects at both Kabil, Indonesia and Kuantan, Malaysia.

Operating Income in the second quarter of 2013 was $85.9 million compared to $26.8 million in the second quarter of 2013, an increase of $59.2 million, or 221%, primarily due to the increase in revenue of $129.5 million, as explained above, and a 8.3 percentage point increase in gross margin due to favourable project mix, better facilities' utilization and the absorption of overheads. The increase in gross profit was partially offset by higher SG&A expenses as explained in section 3.2 above.

Six Months ended June 30, 2013 versus Six Months ended June 30, 2012

Revenue in the Pipeline and Pipe Services segment for the six month period ended June 30, 2013 was $834.1 million, an increase of $271.3 million, or 48%, from $562.8 million in the comparable period in the prior year. Activity levels in Asia Pacific, North America and Latin America were significantly higher in 2013 compared to 2012, partially offset by a decrease in EMAR revenue:

- Revenue in North America increased by $7.0 million, or 2.3%, primarily due to increased pipe weld inspection service revenue and the Socotherm Gulf of Mexico acquisition.

- In Latin America, revenue was higher by $60.5 million, or 164%, mainly due to higher activity levels on the Dragon Cigma project in Trinidad and the inclusion of revenue from Argentina as a result of the acquisition of Socotherm.

- In EMAR, revenue decreased by $40.9 million, or 32%, primarily due to decreased pipe coating activity levels in RAK and at Orkanger, Norway, partially offset by increased volumes on the execution of the Mafumeria Sul project at the Leith, Scotland facility and the inclusion of revenue from Italy as a result of the acquisition of Socotherm.

- Revenue in Asia Pacific increased by $244.8 million, or 249%, mainly due to full production being achieved on the Inpex Ichthys and the Chevron Wheatstone projects at both Kuantan, Malaysia and Kabil, Indonesia.

Operating Income for the six month period ended June 30, 2013 was $195.2 million compared to $64 million for the six month period ended June 30, 2012, an increase of $131.1 million, or 205%. The increase in operating income is due to higher gross profit due to the increase in revenue, as explained above, and a 7.7 percentage points increase in gross margin due to favourable project mix, better facilities utilization and the absorption of overheads. The increase in gross profit was partially offset by higher SG&A expenses as explained in section 3.2 above.

3.3.2 Petrochemical and Industrial Segment

The following table sets forth, by geographic location, the Revenue, Operating Income and Operating Margin for the Petrochemical and Industrial segment for the following periods:

(in thousands of Canadian dollars)		Three months ended					Six months ended		
		June 30, 2013		March 31, 2013		June 30, 2012[(a)]		**June 30, 2013**		June 30, 2012[(a)]
North America	**$**	**24,611**	$	23,349	$	25,313	**$**	**47,960**	$	47,906
EMAR		**14,125**		13,968		13,220		**28,093**		27,594
Asia Pacific	**$**	**1,615**	$	1,255	$	995	**$**	**2,870**	$	1,781
Total Revenue		**40,351**		38,572		39,528		**78,923**		77,281
Operating Income	**$**	**5,056**	$	5,017	$	5,424	**$**	**10,073**	$	10,465
Operating Margin		**12.5%**		13.0%		13.7%		**12.8%**		13.5%

a) Restated due to the adoption of certain new IFRS standards that became effective as at January 1, 2013, but were implemented retrospectively to January 1, 2012.

Second Quarter 2013 versus First Quarter 2013

Revenue increased in the second quarter of 2013 by $1.8 million, or 5 %, to $40.4 million, compared to the first quarter of 2013 due to stable and steady growth of wire and cable product shipments to North American electrical utilities and the oil sands segment.

Operating Income of $5.1 million in the second quarter of 2013 was mostly at par with the first quarter of 2013. Revenue was higher by $1.8 million, as explained above, with a 0.7 percentage point increase in gross margin. This was offset by higher SG&A expenses which was primarily the result of the closure of a DSG Canusa facility in Europe.

Second Quarter 2013 versus Second Quarter 2012

In the second quarter of 2013, revenue totaled $40.4 million compared to $39.5 million in the second quarter of 2012, an increase of $0.8 million, or 2%. The increase was primarily driven by higher revenues in the Asia Pacific heat shrinkable product market.

Operating Income in the second quarter of 2013 was $5.1 million compared to $5.4 million in the second quarter of 2013, a decrease of $0.3 million, or 7%, primarily due to higher SG&A expenses as a result of the closure of a DSG Canusa facility in Europe.

Six Months ended June 30, 2013 versus Six Months ended June 30, 2012

Revenue increased in the six months ended June 30, 2013 by $1.6 million, or 2.1%, to $78.9 million compared to the comparable period in 2012 due to increased shipments of wire and cable products to the North American electrical utilities and oil sands market combined with increased heat shrinkable product shipments in Asia Pacific.

Operating Income for the six months ended June 30, 2013 was $10.1 million compared to $10.5 million for the six months ended June 30, 2012, a decrease of $0.4 million, or 4%. The decrease was primarily due to higher SG&A expenses, partially offset by higher revenue and gross profit.

3.3.3 Financial and Corporate

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

The following table sets forth the Company's unallocated financial and corporate expenses, before foreign exchange gains and losses, for the following periods:

(in thousands of Canadian dollars)	Three months ended			Six months ended	
	June 30, 2013	March 31, 2013	June 30, 2012[(a)]	**June 30, 2013**	June 30, 2012[(a)]
Loss from operations	**$ (13,636)**	$ (24,280)	$ (8,576)	**$ (37,916)**	$ (19,499)

a) Restated due to the adoption of certain new IFRS standards that became effective as at January 1, 2013, but were implemented retrospectively to January 1, 2012.

Second Quarter 2013 versus First Quarter 2013

Financial and corporate costs decreased by $10.6 million from $24.3 million during the first quarter of 2013, to $13.6 million during the second quarter of 2013, primarily as a result of higher one time costs of $7.6 million incurred to complete the Company's Plan of Arrangement on March 20, 2013 and related expenses associated with amended executive retirement arrangements of $5.0 million recorded in the first quarter of 2013, partially offset by higher personnel related costs in the second quarter.

Second Quarter 2013 versus Second Quarter 2012

Financial and corporate costs increased by $5.1 million from the second quarter of 2012 to $13.6 million in the second quarter of 2013, primarily due to higher personnel and management incentive compensation related expenses of $3.5 million and higher decommissioning obligation expense recorded in 2013.

Six Months ended June 30, 2013 versus Six Months ended June 30, 2012

Financial and corporate costs increased by $18.4 million from the six month period ended June 30, 2012 to $37.9 million for the six month period ended June 30, 2013, primarily as a result of higher one time costs of $7.6 million incurred to complete the Company's Plan of Arrangement on March 20, 2013 and related expenses associated with amended executive retirement arrangements of $5.0 million and due to increased personnel and management incentive compensation and professional consulting expenses totaling $5.5 million.

4.0 Liquidity and Capitalization

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

(in thousands of Canadian dollars)	Three Months ended June 30, 2013	Three Months ended June 30, 2012	Six Months ended June 30, 2013	Six Months ended June 30, 2012
Net Income for the Period	**$ 53,522**	$ 20,491	**$ 124,048**	$ 44,624
Non-cash items	**33,670**	15,080	**59,976**	23,280
Settlement of decommissioning obligations	**(58)**	(292)	**(609)**	(541)
Settlement of other provisions	**(7,705)**	(266)	**(11,700)**	(410)
(Decrease) Increase in non-current deferred revenue	**(1,305)**	(78,487)	**(63,914)**	205,876
Change in employee future benefits	**(445)**	102	**(5,691)**	804
Change in non-cash working capital and foreign exchange	**(101,046)**	24,004	**(100,271)**	174,870
Cash (used in) provided by operating activities	**(23,367)**	(19,368)	**1,839**	448,503
Cash used in investing activities	**(65,920)**	(103,534)	**(9,798)**	(232,893)
Cash used in financing activities	**(57,516)**	(22,264)	**(200,147)**	(37,338)
Foreign exchange impact on cash and cash equivalents	**5,227**	267	**6,997**	157
Net change in cash and cash equivalents	**(141,576)**	(144,899)	**(201,109)**	178,429
Cash and cash equivalents at beginning of period	**225,448**	379,865	**284,981**	56,537
Cash and Cash Equivalents at End of Period	**$ 83,872**	$ 234,966	**$ 83,872**	$ 234,966

The Company expects to generate sufficient cash flows and have access to its credit facilities to meet contractual obligations, planned development and growth initiatives as and when they are required.

4.1 Cash (Used in) Provided by Operating Activities

Second Quarter 2013 versus Second Quarter 2012

Cash used in operating activities increased by $4.0 million from $19.4 million in the second quarter of 2012 to $23.4 million in the second quarter of 2013. The increase was due to higher non-cash working capital and foreign exchange of $125.1 million, partially offset by an increase in net income for the period of $33.0 million, an increase in non-cash items of $18.6 million and a change in non-current deferred revenue of $77.2 million, The increase in non-cash working capital and foreign exchange was primarily due to a decrease in the current portion of deferred revenue of $173.9 million, partially offset by a net change in inventories of $32.9 million. Net income increased due to higher revenue and operating income as discussed in section 3.2 above.

Six Months ended June 30, 2013 versus Six months ended June 30, 2012

Cash provided by operating activities decreased by $446.7 million from $448.5 million during the six month period ended June 30, 2012 to $1.8 million during the six month period ended June 30, 2013. The change was due to a decrease in non-current deferred revenue of $269.8 million, an increase in non-cash working capital and foreign exchange of $275.1 million, partially offset by an increase in net income for the period of $79.4 million and an increase in non-cash items of $36.7 million. The increase in non-cash working capital and foreign exchange was primarily due to a decrease in the current portion of deferred revenue of $376.9 million, partially offset by a net change in accounts receivable of $53.4 million and prepaid expenses of $25.7 million. Net income increased due to higher revenue and operating income as discussed in section 3.2 above.

4.2 Cash Used in Investing Activities

Second Quarter 2013 versus Second Quarter 2012

Cash used in investing activities decreased by $37.6 million from $103.5 million during the second quarter of 2012 to $65.9 million during the second quarter of 2013. The decrease was primarily due to an increase in loans receivable of $61.5 million during the second quarter of 2012 compared to a reduction in loans receivable of $0.5 million during the second quarter of 2013 and a reduction in purchases of short term investments of $17.6 million in 2013. This was partially offset by higher purchases of property, plant and equipment of $4.3 million, an increase in investment in joint ventures of $7.4 million and a business acquisition of $30.2 million during the second quarter of 2013.

Six Months ended June 30, 2013 versus Six months ended June 30, 2012

Cash used in investing activities decreased by $223.1 million from $232.9 million for the six month period ended June 30, 2012 to $9.8 million for the six month period ended June 30, 2013, The decrease was primarily due to redemption of short term investments of $64.6 million in 2013 compared to the purchase of short term investments of $144.5 million in 2012. This was partially offset by an increase in loans receivable of $61.6 million during the six month period of 2012 compared to a reduction of $1.1 million during the six month period of 2013 and a business acquisition of $30.2 million during the second quarter of 2013.

4.3 Cash Used in Financing Activities

Second Quarter 2013 versus Second Quarter 2012

Cash used in financing activities increased by $35.3 million from $22.3 million during the second quarter of 2012 to $57.5 million during the second quarter of 2013, mainly due to higher dividend payments of $59.7 million, partially offset by higher proceeds from share issuance of $4.5 million and a reduction in the repurchase of shares in the second quarter of 2013 by $18.9 million.

Six Months ended June 30, 2013 versus Six Months ended June 30, 2012

Cash used in financing activities increased by $162.8 million from $37.3 million for the six month period ended June 30, 2012 to $200.1 million for the six month period ended June 30, 2013. This was mainly due to the purchase of Class B shares under the Company's Plan of Arrangement in the amount of $503.1 million and higher dividend payments of $61.0 million during the first half of 2013, partially offset by the proceeds of the long term debt net of deferred financing expenses of $356.3 million during the first quarter of 2013.

4.4 Liquidity and Capital Resource Measures

Accounts Receivables

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

(in thousands of Canadian dollars)		**June 30, 2013**		December 31, 2012		Change
Average trade accounts receivables	**$**	**218,266**	$	272,218	$	(53,952)
DSO[(a)]		**43**		56		(13)

(a) DSO, a non-GAAP measure, is the average number of days that trade accounts receivables-net are outstanding based on a 90 day cycle. The Company's method of calculating this measure may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. See section 9 – Reconciliation of non-GAAP measures for additional information with respect to DSO.

Average trade accounts receivables decreased by $53.9 million from $272.2 million during the fourth quarter of 2012 to $218.3 million for the second quarter of 2013. DSO decreased by 13 days from 56 during the fourth quarter of 2012 to 43 during the second quarter of 2013, primarily due to the timing of sales, the reduction of deferred revenue and collection of receivables in the second quarter of 2013 compared to the fourth quarter of 2012.

Inventories

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

(in thousands of Canadian dollars)		**June 30, 2013**		December 31, 2012		Change
Inventories	**$**	**220,454**	$	188,347	$	32,107

Inventories increased by $32.1 million from $188.4 million as at December 31, 2012 to $220.5 million as at June 30, 2013, due to an increase in raw materials inventory of approximately $23.3 million, an increase of $1.9 million in work in process and an increase of $6.7 million in finished goods inventory, in anticipation of work to be completed in the third quarter of 2013.

Accounts Payable

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

(in thousands of Canadian dollars)		June 30, 2013		December 31, 2012		Change
Average accounts payable and accrued liabilities	**$**	**221,758**	$	196,293	**$**	25,465
DPO[(a)]		**75**		68		7

(a) DPO, a non-GAAP measure, is the number of days from when purchased goods and services are received until payment is made to the suppliers based on a 90 day cycle. The Company's method of calculating this measure may differ from other entities and as a result may not necessarily be comparable to measures used by other entities. See section 9 – Reconciliation of non-GAAP measures, for additional information with respect to DPO.

Average accounts payable and accrued liabilities increased by $25.5 million, or 13.0%, from $196.3 million during the fourth quarter of 2012, to $221.8 million during the second quarter of 2013. DPO increased by 7 days in the second quarter of 2013 compared to the fourth quarter of 2012, driven by an increase in accounts payable and accrued liabilities and the timing of purchases.

4.5 Unsecured Credit Facilities

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

(in thousands of Canadian dollars)		June 30, 2013		December 31, 2012
Bank indebtedness[(a)]	**$**	**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[(b)]		**313,770**		251,688
Unutilized credit facilities	**$**	**222,491**	$	164,759

(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$400.0 million with the consent of lenders and a reduction in interest rates payable thereunder.

Allowable credit utilization outside of this facility has dropped 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 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.

4.6 Commitments and Contingencies

As part of the Company's normal operations, it often enters into contracts, such as leases and purchase contracts, which obligate the Company to make disbursements in the future. The following table summarizes these future payments required in respect of the Company's contractual obligations:

(in thousands of Canadian dollars)	2013	2014	2015	2016	2017	After 2017	Total
Operating leases	**11,133**	**13,097**	**9,171**	**5,711**	**4,744**	**14,343**	**58,199**
Decommissioning liabilities	**2,752**	**1,373**	**1,481**	**4,313**	**–**	**23,939**	**33,858**
Bank Indebtedness	**10,844**	**–**	**–**	**–**	**–**	**–**	**10,844**
Loans payable	**1,722**	**–**	**–**	**–**	**–**	**366,160**	**367,882**
Finance cost	**7,048**	**13,261**	**13,261**	**13,297**	**13,261**	**82,386**	**142,514**
Obligations under finance leases	**1,828**	**1,414**	**1,253**	**1,253**	**1,253**	**11,966**	**18,967**
Deferred purchase consideration	**20,720**	**–**	**–**	**–**	**–**	**–**	**20,720**
Total contractual obligations	**56,047**	**29,145**	**25,166**	**24,574**	**19,258**	**498,795**	**652,984**

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 consolidated financial position of the Company.

4.7 Loans payable

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

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

4.8 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 March 20, 2013 foreign exchange rate) to institutional investors as follows:

i) US $100,000 (CDN$102,380 at March 20, 2013 foreign exchange rate) aggregate principal amount of its 2.98% Senior Notes, Series A, due March 31, 2020 (the "Series A Notes");

ii) US $100,000 (CDN$102,380 at March 20, 2013 foreign exchange rate) aggregate principal amount of its 3.67% Senior Notes, Series B, due March 31, 2023 (the "Series B Notes");

iii) US $100,000 (CDN$102,380 at March 20, 2013 foreign exchange rate) aggregate principal amount of its 3.82% Senior Notes, Series C, due March 31, 2025 (the "Series C Notes");

iv) US $50,000 (CDN$51,190 at March 20, 2013 foreign exchange rate) aggregate principal amount of its 4.07% Senior Notes, Series D, due March 31, 2028 (the "Series D Notes").

The total long-term debt balance as at June 30, 2013 is $366.2 million. The Company's long term debt has been designated as a hedge of the net investment in a U.S. dollar functional currency subsidiary as described in note 16 of the unaudited interim consolidated financial statements for the three and six months ended June 30, 2013.

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 section 4.5 above 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.

4.9 Financial Instruments

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.

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)	**Fair Value** **$**	**Level 1** **$**	**Level 2** **$**	**Level 3** **$**
Assets				
Derivative financial instruments - current	2,297	–	2,297	–
	2,297	–	2,297	–
Liabilities				
Derivative financial instruments - current	1,855	–	1,855	–
	1,855	–	1,855	–

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)	**Fair value** **$**
Balance – January 1, 2012	2,499
Losses recognized in the statement of income	(2,499)
Closing balance - December 31, 2012	–
Closing balance – June 30, 2013	–

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.

(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**	**$**	**18,029**
Weighted average rate			**0.77**
US dollars sold for Malaysian Ringgits			
Less than one year	**US**	**$**	**93,150**
Weighted average rate			**3.18**
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**	**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 totaling $0.4 million (December 31, 2012 – $2.0 million net benefit).

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 Company management. Material risks are monitored and are regularly reported to the Board of Directors.

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 earnings. The 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 $**
Financial assets				
Cash equivalents	–	–	12,734	12,734
Loans receivable	1,620	3,928	–	5,548
	1,620	**3,928**	**12,734**	**18,282**
Financial liabilities				
Bank indebtedness	–	10,844	–	10,844
Loans payable	1,722	–	–	1,722
Long-term debt (Senior Notes)	–	–	366,160	366,160
	1,722	**10,844**	**366,160**	**378,726**

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.

The objective of managing counter-party credit risk is to prevent losses in financial assets. The company is subject to considerable concentration of credit risk since the majority of its customers operate within the global energy industry and are therefore affected to large extent by the same macroeconomic conditions and risks. The company manages this credit risk by assessing the credit quality of all counter parties, taking into account their financial position, past experience and other

factors. Management also establishes and regularly reviews credit limits of counter parties and monitors utilization of those credit limits on an ongoing basis.

The carrying value of accounts receivable is reduced through the use of an allowance of doubtful accounts and the amount of loss is recognized in the consolidated statement of income with a charge to SG&A expenses. When a receivable balance is considered to be uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against SG&A expenses.

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 to use of $224.5 million (December 31, 2012 - $164.8 million).

4.10 Outstanding Share Capital

As at July 31, 2013, the Company had 59,620,362 common shares outstanding. In addition, as at July 31, 2013, the Company had stock options outstanding to purchase up to 1,827,934 common shares.

4.11 Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2013 that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

4.12 Transactions with Related Parties

During the first quarter, 11,716,235 Class B multiple voting shares were acquired by the Company from a company controlled by Virginia Shaw, the Company's then Chair of the Board, for cash and common shares pursuant to the Arrangement which became effective on March 20, 2013. For additional information regarding these transactions, refer to the section entitled Termination & Change of Control Benefits in the Company's Management Proxy Circular dated March 25, 2013, which is filed on SEDAR at www.sedar.com

5.0 Critical Accounting Estimates and Accounting Policy Developments

5.1 Critical Accounting Estimates

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

Critical estimates used in preparing the consolidated financial statements include:

<u>Long-lived Assets and Goodwill</u>

The Company evaluates the carrying values of the Cash Generating Units' ("CGU") goodwill on an annual basis on October 31 of each year to determine whether or not impairment of these assets has occurred and whether write downs of the value of these assets are required. Similarly, the Company evaluates the carrying value of CGUs for long-lived assets whenever circumstances arise that could indicate impairment, as well as at each reporting date. These impairment tests include certain assumptions regarding discount rates and future cash flows generated by these assets in determining the value-in-use and fair value less costs to sell calculations. Actual results could differ from these assumptions.

Future Benefit Obligations

The Company provides future benefits to its employees under a number of defined benefit arrangements. The calculation of the accrued benefit obligations recognized in the consolidated financial statements includes a number of assumptions regarding discount rates, long-term rates of return on pension plan assets, rates of employee compensation increases, rates of inflation, medical costs and life expectancies. The outcome of any of these factors could differ from the estimates used in the calculations and have an impact on operating expenses, non-current assets and non-current liabilities.

Provisions and Contingent Liabilities
Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable that there will be a future outflow of economic benefits resulting from past operations or events and the amount of the cash outflow can be reliably estimated. The timing of recognition and measurement of the provision requires the application of judgment to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances. The Company is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and then determine that the loss can reliably be estimated. When a loss is determined it is charged to the consolidated statement of income. The Company must continually monitor known and potential contingent matters and make appropriate provisions by charges to income when warranted by circumstances.

Decommissioning Liabilities

Decommissioning liabilities include legal and constructive obligations related to owned and leased facilities. These have been recorded in the consolidated financial statements based on estimated future amounts required to satisfy these obligations. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a current pre-tax risk-free rate. A corresponding asset equal to the present value of the initial estimated liability is capitalized as part of the cost of the related long-lived asset. Changes in the estimated liability resulting from revisions to estimated timing or future decommissioning cost estimates are recognized as a change in the decommissioning liability and the related long-lived asset. The amount capitalized in property, plant and equipment is depreciated over the useful life of the related asset. Increases in the decommissioning liabilities resulting from the passage of time are recognized as a finance cost in the consolidated statement of income.

Actual expenditures incurred are charged against the accumulated decommissioning liability.

Financial Instruments

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

Income Taxes

The recording of income tax expense includes certain estimations related to the impact in the current year of future events. Differences between the estimated and actual impact of these events could impact tax expense, current taxes payable or deferred taxes. In particular, earnings and losses in foreign jurisdictions may be taxed at rates different from those expected in Canada.

5.2 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.

5.3 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.

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 section 5.4, 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 condensed 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.

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 the interim consolidated financial statements. The Company has provided these prescribed financial statement disclosures in Note 15 in the unaudited interim financial statements for the three and six months ended June 30, 2013.

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 section 5.4, 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 section 5.4, which includes quantification of the effect on the Company's interim consolidated financial statements.

5.4 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 this MD&A, because it has already been disclosed in the Company's interim consolidated financial statements for the quarter ended March 31, 2013 and the Company's MD&A 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 this MD&A, because it has already been disclosed in the Company's interim consolidated financial statements for the quarter ended March 31, 2013 and the Company's MD&A for the quarter ended March 31, 2013.

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

Consolidated Statement of Income	IFRS June 30, 2012	IFRS 11 Joint Arrangements (section 5.4)	IAS 19 Employee Benefits (section 5.4)	Restated Under IFRS Changes June 30, 2012
Revenue	$ 639,191	$ –	$ –	$ 639,191
Cost of goods sold and Services Rendered	407,054	160	–	**407,214**
Gross profit	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**
Income from operations	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**
Income before income taxes	56,559	90	(73)	**56,576**
Income taxes (recovery)	11,881	90	(19)	**11,952**
Net income for the period	$ 44,678	$ –	$ (54)	$ **44,624**
Net income attributable to:				
Shareholders of the Company	$ 44,678	$ –	$ (54)	$ **44,624**
Non-controlling interests	–	–	–	–
	$ 44,678	$ –	$ (54)	$ **44,624**
Earnings per share				
Basic	$ 0.63	$ –	$ –	$ **0.63**
Diluted	$ 0.63	$ –	$ –	$ **0.63**
Consolidated Statement of Comprehensive Income				
Net income for the period	$ 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)**
Comprehensive income for the period	$ 38,060	$ 243	$ (2,000)	$ **36,303**
Comprehensive income attributable to:				
Shareholders of the Company	$ 38,060	$ 243	$ (2,000)	$ **36,303**
Non-controlling interests	–	–	–	–
Comprehensive income for the period	$ 38,060	$ 243	$ (2,000)	$ **36,303**

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

Consolidated Statement of Income	IFRS June 30, 2012	IFRS 11 Joint Arrangements (section 5.4)	IAS 19 Employee Benefits (section 5.4)	Restated Under IFRS Changes June 30, 2012
Revenue	$ 326,923	$ –	$ –	$ 326,923
Cost of goods sold and Services Rendered	213,280	(146)	–	213,134
Gross profit	113,643	146	–	113,789
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
Income from operations	22,795	473	(36)	23,232
Income on investment in associate	1,450	–	–	1,450
Investment loss in joint ventures	–	(480)	–	(480)
Finance income, net	604	126	–	730
Income before income taxes	24,849	119	(36)	24,932
Income taxes (recovery)	4,331	119	(9)	4,441
Net income for the period	$ 20,518	$	$ (27)	$ 20,491
Net income attributable to:				
Shareholders of the Company	21,404	–	(27)	21,377
Non-controlling interests	(886)	–	–	(886)
	20,518	–	(27)	20,491
Earnings per share				
Basic	$ 0.30	$ –	$ –	$ 0.30
Diluted	$ 0.30	$ –	$ –	$ 0.30

Net income for the period	$ 20,518	$ –	$ (27)	$ 20,491
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) income for the period	(218)	–	(974)	(1,192)
Comprehensive income for the period	$ 20,300	$ –	$ (1,001)	$ 19,299
Comprehensive income attributable to:				
Shareholders of the Company	$ 21,323	$ –	$ (1,001)	$ 20,322
Non-controlling interests	(1,023)	–	–	(1,023)
Comprehensive income for the period	$ 20,300	$ –	$ (1,001)	$ 19,299

6.0 Outlook

The outlook for market activity in the Company's Pipeline and Pipe Services segment by region and in the Petrochemical and Industrial segment is outlined below:

Pipeline and Pipe Services Segment - North America

North American pipeline markets are expected to continue to provide ShawCor with opportunities for revenue growth. In the second half of 2013, modest revenue improvement is expected over second quarter levels as Western Canada resumes well completion activity following the downturn associated with spring breakup. Also in the second half of 2013, the Company expects to see a pick-up in large diameter pipe coating project work including a planned restart of the large diameter pipe coating plant in Portland, Oregon. Finally, second half revenue will be enhanced by the launching of full production at the Socotherm Gulf of Mexico facility on projects with a value in excess of $80 million to be executed over the next twelve months.

Beyond 2013, the Company anticipates that North America will be a key source of long term growth. Continued shale oil and gas developments are expected to drive growth for the Flexpipe composite pipe and Guardian OCTG pipe inspection and refurbishment businesses. The Company's Texas based insulation coating facilities are expected to benefit from increased offshore deepwater project activity in the Gulf of Mexico. Lastly, large diameter pipe coating volumes are likely to continue to strengthen as pipeline infrastructure investment is made to facilitate increasing unconventional oil production and, over the longer term, the production and export of liquid natural gas.

Pipeline and Pipe Services Segment - Latin America

With the $90 million Technip project now over 90% complete, the Company expects that revenue from Latin America pipe coating operations will be sustained, at the level reported in the second quarter, for the balance of 2013. Current activity levels in Mexico are projected to remain strong with multiple bidding opportunities for both onshore and offshore pipelines being pursued. The internal coating of OCTG at Socotherm's Argentina facility is a second area of strength that is expected to remain stable in future quarters. Although volume levels at the Company's wholly-owned facility in Belo Horizonte, Brazil are presently very low, this is expected to change in early 2014 when production will commence for the deepwater insulation coating for flowlines and risers for Petrobras' Sapinhoa field in the Santos basin.

Pipeline and Pipe Services Segment - EMAR

The Company's Europe, Middle East, Africa, Russia ("EMAR") region has experienced strong project revenues from the pipe coating facilities in Orkanger, Norway and Ras Al Khaimah, UAE. This is expected to continue throughout 2013, supported by the Company's recent acquisition of Socotherm which will contribute revenue from its facilities in Europe. In 2014, further improvement in region activity is expected based on the planned mobilization of the Leith, Scotland facility to execute several projects including the recently announced Edvard Grieg project.

Pipeline and Pipe Services Segment - Asia Pacific

In the second quarter of 2013, the Inpex Ichthys export line and Chevron Wheatstone flowlines projects were in full production resulting in the record revenue from the region. In the second half of 2013, this level of activity will be sustained with the ramping up of the insulated flowlines for the Apache Julimar and Inpex Ichthys projects. In 2014, it is likely that revenue levels will decrease, particularly once the $400 million Inpex Ichthys export line project is completed in the first quarter of 2014. However, the Company remains confident that the Asia Pacific region will continue to provide compelling opportunities beyond 2014, particularly with the emergence of deepwater oil and gas developments that will require the Company's operational capability and unique product technologies.

Petrochemical and Industrial Segment

ShawCor's Petrochemical and Industrial segment businesses are significantly exposed to demand in the North American and European automotive, industrial and nuclear refurbishment markets. Although the outlook for demand in industrial markets in developed economies remains uncertain, the Company's Petrochemical and Industrial segment businesses have achieved gains in market share. This trend is expected to continue with the result that the segment should generate modest revenue growth in 2013 versus 2012 levels. With the completion in the third quarter of a new facility in Germany for the segment's heat shrink tubular business, steady revenue growth combined with improved operational efficiencies is expected to generate higher operating margins and earnings for the Petrochemical and Industrial segment in 2014 and beyond.

Order Backlog

The Company's order backlog consists of firm customer orders only and represents the revenue the Company expects to realize on booked orders over the succeeding twelve months. The Company reports the twelve month billable backlog because it provides a leading indicator of significant changes in consolidated revenue. The order backlog at June 30, 2013 remained strong at $778 million although reduced from the record level of $875 million attained at the end of the first quarter of 2013. Compared to the prior year, the order backlog has improved by approximately 4%. In addition to the strong backlog at quarter end, bidding activity remains very high with outstanding bids currently exceeding $800 million dollars. The bidding activity is also very well diversified across all of the Company's regions, an indication of the strong global demand for pipeline infrastructure that is expected to drive the Company's performance, particularly in 2015 and 2016.

7.0 Risks and Uncertainties

Operating in an international environment, servicing predominantly the oil and gas industry, ShawCor faces a number of business risks and uncertainties that could materially and adversely affect its projections, businesses, results of operations and financial condition. There were no material changes in the nature or magnitude of such business risks during the quarter. A more complete outline of the risks and uncertainties facing the Company is included in the annual MD&A contained in the Company's 2012 Annual Report.

8.0 Environmental Matters

While environmental related liabilities are considered immaterial to the Company's financial results, they are important to the Company from a social responsibility standpoint.

As at June 30, 2013, the provisions on the interim consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were $21.5 million. The Company believes these provisions to be sufficient to fully satisfy all liabilities related to known environmental matters.

9.0 Reconciliation of Non-GAAP Measures

The Company evaluates its performance using a number of different measures that are not in accordance with GAAP and should not be considered as an alternative to net income or any other measure of performance under GAAP. Non-GAAP measures do not have standardized meanings prescribed by IFRS. The Company's method of calculating these measures may differ from other entities and as a result may not necessarily be comparable to measures used by other entities.

EBITDA

EBITDA is defined as earnings before interest, income taxes, depreciation and amortization, impairment of property, plant, equipment, goodwill and intangible assets, investment losses and gain on revaluation of investment. The Company believes that EBITDA is a useful supplemental measure that provides a meaningful indication of the Company's results from principal business activities prior to the consideration of how these activities are financed or the tax impacts in various jurisdictions. Refer to section 2.1 – Selected Second Quarter Information of this report for a reconciliation of the Company's EBITDA to its net income in accordance with GAAP.

Days Sales Outstanding ("DSO")

DSO is defined as the number of days trade accounts receivable are outstanding based on a 90 day cycle and is calculated by dividing the average trade accounts receivable balance for the quarter by the revenue for that same quarter, and multiplying by 90 days. DSO approximates the measure of the average number of days from when the Company recognizes revenue until the cash is collected from the customer. The following table sets forth the calculation for the Company's DSO as at:

(in thousands of Canadian dollars)	**June 30, 2013**	December 31, 2012
Revenue for the quarter	**$ 457,261**	$ 439,499
Average trade accounts receivables	**218,266**	272,218
DSO	**43**	56

Days Payables Outstanding ("DPO")

DPO is defined as the average number of days from when purchased goods and services are received until payment is made to the suppliers based on a 90-day cycle and is calculated by dividing the average accounts payable and accrued liabilities for the quarter by the cost of goods sold for that same quarter, and multiplying by 90 days.

The following table sets forth the calculation for the Company's DPO as at:

(in thousands of Canadian dollars)		**June 30, 2013**		December 31, 2012
Cost of goods sold for the quarter	**$**	**265,016**	$	258,016
Average accounts payable and accrued liabilities		**221,758**		196,293
DPO		**75**		68

Working Capital Ratio

Working capital ratio is defined as current assets divided by current liabilities. This metric provides management with an indication of the current liquidity available to the Company before considering long-term debt.

The following table sets forth the calculation for the Company's working capital ratio as at:

(in thousands of Canadian dollars)		**June 30, 2013**		December 31, 2012
Current assets	$	**702,899**	$	986,826
Current liabilities	$	**583,306**	$	673,985
Working capital ratio		**1.21**		1.46

Interest Coverage Ratio

Interest Coverage Ratio is defined as EBITDA plus rental payments divided by interest expense plus rental payments. The following table sets forth the calculation of the Company's interest coverage ratio for the three month period ended June 30, 2013:

(in thousands of Canadian dollars)		**June 30, 2013**
EBITDA plus rental payments	$	**106,347**
Interest expense plus rental payments		**9,488**
Interest coverage ratio		**11.21**

The Company is in compliance with this debt covenant as at June 30, 2013.

10.0 Summary of Quarterly Results

The following is a summary of selected financial information for the ten most recently completed quarters:

(in thousands of Canadian dollars except per share amounts)	Frist Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenue					
2013	**454,681**	**457,261**	–	–	–
2012	312,268	326,923	390,497	439,499	1,469,187
2011	279,466	264,541	271,478	341,780	1,157,265
Income (loss) from operations					
2013	**89,125**	**78,536**	–	–	–
2012	30,554	23,232	64,305	92,962	211,053
2011	30,095	22,660	(60)	31,212	83,907
Net income (loss)[(a)]					
2013	**70,595**	**53,914**	–	–	–
2012	23,247	21,377	53,411	80,275	178,310
2011	20,485	15,703	(3,144)	23,236	56,280
Income from operations per share[(b)]					
Basic					
2013	**1.29**	**1.32**	–	–	–
2012	0.43	0.33	0.92	1.32	3.00
2011	0.43	0.32	0.00	0.44	1.19
Diluted					
2013	**1.28**	**1.31**	–	–	–
2012	0.43	0.33	0.91	1.30	2.97
2011	0.42	0.32	0.00	0.44	1.18
Net income (loss) per share[(b)]					
Basic					
2013	**1.02**	**0.91**	–	–	–
2012	0.34	0.30	0.75	1.14	2.53
2011	0.29	0.22	(0.04)	0.32	0.79
Diluted					
2013	**1.01**	**0.90**	–	–	–
2012	0.33	0.30	0.74	1.13	2.50
2011	0.29	0.21	(0.04)	0.32	0.78

(a) Represents the net income attributable to shareholders of the Company.
(b) Based on the Class A and Class B shares for periods up to March 20, 2013; based on the new common shares thereafter.

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

The Company's operations in the Pipeline and Pipe Services segment, representing approximately 91% of the Company's consolidated revenue, are largely project-based. The nature and timing of projects can result in variability in the Company's quarterly revenue and profitability. In addition, certain of the Company's operations are subject to a degree of seasonality, particularly in the Pipeline and Pipe Services market segment. The comparability of the quarterly information disclosed above is also impacted by movements in exchange rates as the majority of the Company's revenue is transacted in currencies other than Canadian dollars, primarily U.S. dollars. Changes in the rates of exchange between the Canadian dollar and other currencies could have a significant effect on the amount of this revenue when it is translated into Canadian dollars.

11.0 Forward-Looking Information

This document includes certain statements that reflect management's expectations and objectives for the Company's future performance, opportunities and growth, which statements constitute "forward-looking information" and "forward looking statements" (collectively "forward looking information") under applicable securities laws. Such statements, other than statements of historical fact, are predictive in nature or depend on future events or conditions. Forward looking information involves estimates, assumptions, judgments and uncertainties. These statements may be identified by the use of forward-looking terminology such as ″ may″ , ″will″, ″should″, ″anticipate″, ″expect″, ″believe″, ″predict″, ″estimate″, ″continue″, ″intend″, ″plan″ and variations of these words or other similar expressions. Specifically, this document includes forward looking information in the Outlook section and elsewhere in respect of, among other things, the timing of major project activity, the sufficiency of resources and capital to meet market demand and to execute the Company's development and growth strategy, the impact of the existing order backlog and other factors on the Company's revenue and operating income in 2013 and in the longer term, the impact of global economic activity on the demand for the Company's products, the impact of changing energy demand, supply and prices, the impact and likelihood of changes in competitive conditions in the markets in which the Company participates, the impact of changing laws for environmental compliance on the Company's capital and operating costs, and the adequacy of the Company's existing accruals in respect thereof and in respect of litigation matters and other claims generally, the level of payments under the Company's performance bonds, the outlook for revenue and operating income and the expected development in the Company's order backlog.

Forward looking information involves known and unknown risks and uncertainties that could cause actual results to differ materially from those predicted by the forward-looking information. We caution readers not to place undue reliance on forward looking information as a number of factors could cause actual events, results and prospects to differ materially from those expressed in or implied by the forward looking information. Significant risks facing the Company include, but are not limited to: changes in global or regional economic activity and changes in energy supply and demand, which impact on the level of drilling activity and pipeline construction; exposure to product and other liability claims; shortages of or significant increases in the prices of raw materials used by the Company; compliance with environmental, trade and other laws; political, economic and other risks arising from the Company's international operations; fluctuations in foreign exchange rates, as well as other risks and uncertainties, as more fully described under the heading "Risks and Uncertainties" in the Company's annual MD&A.

These statements of forward looking information are based on assumptions, estimates and analysis made by management in light of its experience and perception of trends, current conditions and expected developments as well as other factors believed to be reasonable and relevant in the circumstances. These assumptions include those in respect of continued global economic recovery, increased investment in global energy infrastructure, the Company's ability to execute projects under contract, the continued supply of and stable pricing for commodities used by the Company, the availability of personnel resources sufficient for the Company to operate its businesses, the maintenance of operations in major oil and gas producing regions and the ability of the Company to satisfy all covenants under its credit facilities and the senior notes . The Company believes that the expectations reflected in the forward looking information are based on reasonable assumptions in light of currently available information. However, should one or more risks materialize or should any assumptions prove incorrect, then actual results could vary materially from those expressed or implied in the forward looking information included in this document and the Company can give no assurance that such expectations will be achieved.

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

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

August 8, 2013