

## **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 and six months ended June 30, 2016 and 2015 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 2015 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 ("IASB"), 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 12 hereof.*

#### **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 eighty manufacturing, sales and service facilities located around the world. The Company is publicly-traded on the Toronto Stock Exchange.

#### **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 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, 2016, 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 81% of consolidated revenue for the quarter ended June 30, 2016. This segment includes the Bredero Shaw, Canusa-CPS, Shaw Pipeline Services, Flexpipe Systems, Guardian, Desert NDT and Lake Superior Consulting divisions.

- Bredero Shaw's product offerings include specialized internal anti-corrosion and flow efficiency pipe coating systems, insulation coating systems, weight coating systems and custom coating and field joint application services for onshore and offshore pipelines.
- 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.
- Desert NDT provides non-destructive testing services for new oil and gas gathering pipelines and oilfield infrastructure integrity management services.
- Lake Superior Consulting provides pipeline engineering and integrity management services to major North American pipeline operators.

### ***Petrochemical and Industrial***

The Petrochemical and Industrial segment, which consists of the Connection Systems division, accounted for 19% of consolidated revenue for the quarter ended June 30, 2016. 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. The Connection Systems division was formed from the 2015 integration of the DSG-Canusa and Shawflex divisions.

- Connection Systems 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.
- Connection Systems also manufactures wire and cable for control, instrumentation, thermocouple, power, marine and robotics applications.

## 2.0 Financial Highlights

### 2.1 Selected Financial Information

(in thousands of Canadian dollars)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
<b>Revenue</b>	\$ 255,359	\$ 398,020	\$ 620,938	\$ 869,960
<b>Cost of Goods Sold and Services Rendered</b>	<b>184,489</b>	274,421	<b>423,133</b>	577,336
	<b>70,870</b>	123,599	<b>197,805</b>	292,624
Selling, general and administrative expenses	<b>86,005</b>	103,064	<b>169,836</b>	196,777
Research and development expenses	<b>4,722</b>	4,539	<b>9,030</b>	8,612
Foreign exchange (gains) losses	<b>(274)</b>	2,920	<b>1,439</b>	(177)
Amortization of property, plant and equipment	<b>14,253</b>	14,631	<b>29,082</b>	28,374
Amortization of intangible assets	<b>6,038</b>	5,523	<b>12,342</b>	10,500
Gain on sale of land	<b>(511)</b>	–	<b>(511)</b>	–
Impairment	<b>1,429</b>	–	<b>1,429</b>	–
<b>(Loss) Income from Operations</b>	<b>(40,792)</b>	(7,078)	<b>(24,842)</b>	48,538
(Loss) income from investments in associates	<b>(715)</b>	(146)	<b>(1,168)</b>	(257)
Finance costs, net	<b>(3,973)</b>	(4,213)	<b>(8,717)</b>	(8,661)
One-time costs on repayment of Senior Notes	<b>(2,061)</b>	–	<b>(2,061)</b>	–
<b>(Loss) Income before Income Taxes</b>	<b>(47,541)</b>	(11,437)	<b>(36,788)</b>	39,620
Income taxes	<b>(5,826)</b>	(3,111)	<b>(3,228)</b>	9,679
<b>Net (Loss) Income</b>	<b>\$ (41,715)</b>	\$ (8,326)	<b>\$ (33,560)</b>	\$ 29,941
<b>Net (Loss) Income attributable to:</b>				
Shareholder of the Company	<b>(41,678)</b>	(8,538)	<b>(34,217)</b>	29,236
Non-controlling interests	<b>(37)</b>	212	<b>657</b>	705
<b>Net (Loss) Income</b>	<b>(41,715)</b>	(8,326)	<b>(33,560)</b>	29,941
<b>Per Share Information:</b>				
<b>Earnings (Loss) per Share</b>				
Basic	\$ <b>(0.65)</b>	\$ (0.13)	\$ <b>(0.53)</b>	\$ 0.45
Diluted	\$ <b>(0.65)</b>	\$ (0.13)	\$ <b>(0.53)</b>	\$ 0.45
<b>Cash Dividend per Share:</b>				
Common Shares	\$ <b>0.150</b>	\$ 0.150	\$ <b>0.300</b>	\$ 0.300

(in thousands of Canadian dollars)	June 30, 2016	December 31, 2015
<b>Total Assets</b>	\$ 1,765,176	\$ 2,145,705
<b>Total Non-current Liabilities</b>	\$ 448,195	\$ 579,839

## 2.2 EBITDA

(in thousands of Canadian dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Net Income</b>	<b>(41,715)</b>	(8,326)	<b>(33,560)</b>	29,941
<b>Add:</b>				
Income taxes	<b>(5,826)</b>	(3,111)	<b>(3,228)</b>	9,679
Finance costs, net	<b>3,973</b>	4,213	<b>8,717</b>	8,661
Amortization of property, plant, equipment and intangible assets	<b>20,291</b>	20,154	<b>41,424</b>	38,874
<b>EBITDA<sup>(a)</sup></b>	<b>(23,277)</b>	12,930	<b>13,353</b>	87,155

(a) Earnings before interest, income taxes, depreciation and amortization ("EBITDA") is a non-GAAP measure, calculated by adding back to net income the sum of income taxes, net finance costs, depreciation and amortization of property, plant, equipment and intangible assets. The Company uses EBITDA as an indicator of its principal business activities prior to consideration of how its activities are financed and the impact of taxation and non-cash depreciation and amortization. EBITDA does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies. EBITDA is used by many analysts in the oil and gas industry as one of several important analytical tools. This measure is also considered important by lenders to the Company. It should not be considered in isolation or used as an alternative to net income or any of the other measures of performance prepared in accordance with GAAP.

## 2.3 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,	
	2016	2015	2016	2015
U.S. dollar	<b>1.2916</b>	1.2373	<b>1.3304</b>	1.2326
Euro	<b>1.4484</b>	1.3648	<b>1.4748</b>	1.3883
British Pounds	<b>1.8339</b>	1.8948	<b>1.8972</b>	1.8900

The following table sets forth the impact on revenue, operating income 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)	Q2-2016 Versus Q1-2016	Q2-2016 versus Q2-2015	Q2-2016 YTD versus Q2-2015 YTD
Revenue	\$ (8,635)	3,295	12,359
Operating income	1,109	861	(1,567)
Net income	745	362	(1,075)

In addition to the translation impact noted above, the Company recorded a foreign exchange gain of \$0.3 million in the second quarter of 2016, compared to a loss of \$2.9 million for the comparable period in the prior year (six months ended June 30, 2016 – a gain of \$0.2 million), 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.

### **3.0 Business Developments**

#### **Repurchase of US\$78 Million of Senior Notes**

In the second quarter of 2016, the Company utilized a portion of its existing cash balances to repurchase approximately US\$78 million of its long-term debt ("Senior Notes") at a purchase price of approximately US\$79 million plus accrued interest. The Company had previously announced the repurchase of US\$75 million of its Senior Notes and subsequently acquired an additional US\$3 million of its Senior Notes.

#### **Amendments to Senior Notes Agreement and Credit Facility**

On May 10, 2016, the Company announced that it had entered into amending agreements with its Senior Note holders and the syndicate of lenders under its unsecured bank credit facility (the "Credit Facility"). The principal amendments to the agreements with the Senior Note holders and to the Credit Facility were:

- a) an increase in the Company's permitted Total Debt to EBITDA covenant (the "Leverage Ratio") (currently a maximum of 3.00 to 1.00) to 4.25 to 1.00 for the fiscal quarters ending September 30, 2016 and December 31, 2016;
- b) at the Company's option, an increase in the Leverage Ratio to 3.75 to 1.00 and 3.5 to 1.00 for the quarters ending March 31, 2017 and June 30, 2017, respectively;
- c) increased interest rates and standby and other fees payable to Senior Note holders and under the Credit Facility during any period when the Company is permitted an increased Leverage Ratio (an "Increased Leverage Period");
- d) a reduction in the size of the Credit Facility from US\$400 million to US\$325 million; and
- e) a change to the definition of the Leverage Ratio, which currently permits deductions from Total Debt of up to US\$75 million in letters of credit which are performance guarantees ("Performance Guarantees"), to permit deduction from Total Debt of up to US\$100 million in Performance Guarantees on a permanent basis and up to US\$150 million in Performance Guarantees on a temporary basis during any Increased Leverage Period.

#### **Sur de Texas – Tuxpan Contract Award**

On June 8, 2016, the Company announced that it had been awarded a conditional contract with a value in excess of C\$300 million from Infraestructura Marina del Golfo (IMG), a Mexican company majority-owned by TransCanada Corporation and partially owned by IEnova, for pipeline coating for the CFE Sur de Texas – Tuxpan gas pipeline project, a 690 km offshore pipeline that will run from the USA/Mexico international border near Brownsville, Texas to a location near Tuxpan, Mexico. The contract has since been finalized and is scheduled to be executed from 2 coating plants in Altamira, Mexico and involves the application of concrete weight coating. Coating is expected to commence in early 2017 with completion expected by the end of 2017.

The Company has also received a letter of intent for a portion of the anti corrosion coating of pipe destined for the Sur de Texas – Tuxpan pipeline. Including the anti corrosion coating, the Sur de Texas – Tuxpan project has an estimated revenue value to Shawcor in excess of \$350 million.

## 4.0 Results from Operations

### 4.1 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, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Pipeline and Pipe Services	\$ 206,990	\$ 316,980	\$ 352,337	\$ 523,970	\$ 781,151
Petrochemical and Industrial	48,818	48,873	45,844	97,691	90,084
Elimination <sup>(a)</sup>	(449)	(274)	(161)	(723)	(1,275)
	\$ 255,359	\$ 365,579	\$ 398,020	\$ 620,938	\$ 869,960

(a) Represents the elimination of the inter-segment sales between the Pipeline and Pipe Services segment and the Petrochemical and Industrial segment.

#### *Second Quarter 2016 versus First Quarter 2016*

Consolidated revenue decreased 30%, or \$110.2 million, from \$365.6 million during the first quarter of 2016 to \$255.4 million during the second quarter of 2016, mainly due to a decrease of \$110.0 million in the Pipeline and Pipe Services segment.

Revenue decreased by 35 % in the Pipeline and Pipe Services segment, or \$110.0 million, from \$317.0 million in the first quarter of 2016 to \$207.0 million in the second quarter of 2016 due to lower activity levels in all regions. See Section 4.2.1 – 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 unchanged in the second quarter of 2016, compared to the first quarter of 2016. See Section 4.2.2 – Petrochemical and Industrial Segment for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

#### *Second Quarter 2016 versus Second Quarter 2015*

Consolidated revenue decreased by \$142.7 million, or 36%, from \$398.0 million during the second quarter of 2015, to \$255.4 million during the second quarter of 2016, due to a decrease of \$145.4 million in the Pipeline and Pipe Services segment, partially offset by an increase of \$3.0 million in the Petrochemical and Industrial segment.

In the Pipeline and Pipe Services segment, revenue in the second quarter of 2016 was \$207.0 million, or 41% lower than in the second quarter of 2015, due to decreased activity levels in all regions. See Section 4.2.1 – 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 \$3.0 million, or 6%, during the second quarter of 2016 compared to the second quarter of 2015, due to higher activity levels in all regions. See Section 4.2.2 – 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, 2016 versus Six Months Ended June 30, 2015*

Consolidated revenue decreased by \$249.0 million, or 29%, from \$870.0 million for the six month period ended June 30, 2015 to \$620.9 million for the six month period ended June 30, 2016, due to a decrease of \$257.2 million, or 33%, in the Pipeline and Pipe Services segment, partially offset by an increase of \$7.6 million, or 8%, in the Petrochemical and Industrial segment.

Revenue for the Pipeline and Pipe Services segment during the first half of 2016 was \$524.0 million, or \$257.2 million lower than in the comparable period in 2015, due to lower activity levels in all regions. See Section 4.2.1 – 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 \$7.6 million in the first half of 2016 compared to the same period in 2015, due to higher activity levels in all regions. See Section 4.2.2– Petrochemical and Industrial Segment for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

### ***(Loss) Income from Operations***

The following table sets forth Operating Income and Operating Margin for the following periods:

(in thousands of Canadian dollars)	Three Months Ended			Six Months Ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Operating (Loss) Income	\$ (40,792)	\$ 15,950	\$ (7,078)	\$ (24,842)	\$ 48,538
Operating Margin <sup>(a)</sup>	(16.0%)	4.4%	(1.8)%	(4.0%)	5.6%

(a) Operating Margin is defined as Operating Income divided by revenue and is a non-GAAP measure. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies.

### ***Second Quarter 2016 versus First Quarter 2016***

Operating Income decreased by \$56.7 million, from an Operating Income of \$16.0 million during the first quarter of 2016 to an Operating Loss of \$40.8 million in the second quarter of 2016. Operating Income was impacted by a decrease in gross profit of \$56.1 million and increases in selling, general and administrative ("SG&A") expenses of \$2.2 million, research and development expenses of \$0.4 million and impairment charges of \$1.4 million. This was partially offset by a decrease in amortization of property, plant, equipment and intangible assets of \$0.8 million, an increase in net foreign exchange gain of \$2.0 million and a gain on sale of land of \$0.5 million.

The decrease in gross profit resulted from a 6.9 percentage point decrease in the gross margin from the first quarter of 2016 and the lower revenue, as explained above. The decrease in the gross margin percentage was primarily due to labour cost inefficiencies due to lower facility utilization and reduced absorption of manufacturing overheads as a result of the decrease in revenue in the Pipeline and Pipe Services segment as well as restructuring charges included in cost of goods sold of \$0.5 million.

SG&A expenses increased by \$2.2 million, from \$83.8 million in the first quarter of 2016 to \$86.0 million in the second quarter of 2016, primarily due to restructuring charges of \$12.1 million recorded in the second quarter of 2016. The restructuring charges included \$7.1 million for employee severance and \$5.0 million for plant and office closure and co-location costs. These restructuring costs were partially offset by reductions in personnel related and management incentive compensation expenses of \$9.3 million and other costs of \$0.6 million.

### ***Second Quarter 2016 versus Second Quarter 2015***

Operating Income decreased by \$33.7 million, from an Operating Loss of \$7.1 million in the second quarter of 2015 to an Operating Loss of \$40.8 million during the second quarter of 2016. Operating Income was impacted by decreases in gross profit of \$52.8 million and impairment charges of \$1.4 million recorded in the second quarter of 2016. This was partially offset by a decrease in SG&A expenses of \$17.1 million, a gain on sale of land of \$0.5 million and an increase in net foreign exchange gain of \$3.2 million.

The decrease in gross profit resulted from a 3.3 percentage point decrease in gross margin and the lower revenue, as explained above. The decrease in the gross margin percentage was primarily attributable to changes in product and project mix, labour inefficiencies due to lower facility utilization and reduced manufacturing overhead absorption compared to the second quarter of 2015, particularly in the Pipeline and Pipe Services segment, which

was impacted by low oil and gas prices and a decline in oilfield activity as well as restructuring charges included in cost of goods sold of \$0.5 million.

SG&A expenses in the second quarter of 2016 decreased by \$17.1 million primarily due to reductions in personnel related and management incentive compensation expenses of \$9.7 million, a net reduction in restructuring charges of \$2.9 million compared to the second quarter of 2015, a decrease in rental and building costs of \$1.4 million, primarily associated with decreased activity in the Asia Pacific region, and \$3.0 million in lower bank charges and other costs.

#### ***Six Months Ended June 30, 2016 versus Six Months Ended June 30, 2015***

Operating Income decreased by \$73.4 million, from an Operating income of \$48.5 million in the six month period ended June 30, 2015, to an Operating Loss of \$24.8 million in the six month period ended June 30, 2016. Operating Income was impacted by a year over year decrease in gross profit of \$94.8 million and increases in amortization of property, plant, equipment and intangible assets of \$2.6 million, research and development expenses of \$0.4 million, net foreign exchange loss of \$1.6 million and impairment charges of \$1.4 million. These items were partially offset by a decrease in SG&A expenses of \$26.9 million and a gain on sale of land of \$0.5 million.

The decrease in gross profit resulted from a 1.8 percentage point decrease in gross margin and the lower revenue, as explained above. The decrease in the gross margin was attributable to changes in product and project mix and labour inefficiencies due to lower facility utilization and reduced manufacturing overhead absorption compared to the prior year, particularly in the Pipeline and Pipe Services segment, as well as restructuring charges included in cost of goods sold of \$0.5 million.

SG&A expenses decreased by \$26.9 million in the first six months of 2016 compared to the comparable period in 2015, primarily due to reductions in personnel related and management incentive compensation expenses of \$18.2 million, a net reduction in restructuring charges of \$2.9 million compared to the first six months of 2015, a decrease in rental and building costs of \$1.9 million, primarily associated with decreased activity in the Asia Pacific region, and \$3.9 million in lower bank charges and other costs.

#### ***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, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Interest income	\$ (183)	\$ (316)	\$ (195)	\$ (499)	\$ (395)
Interest expense, other	1,418	914	415	2,332	1,227
Interest expense on long-term debt	2,738	4,146	3,993	6,884	7,829
Finance costs, net	\$ 3,973	\$ 4,744	\$ 4,213	\$ 8,717	\$ 8,661

#### ***Second Quarter 2016 versus First Quarter 2016***

In the second quarter of 2016, net finance costs were \$4.0 million, compared to a net finance cost of \$4.7 million during the first quarter of 2016. The decrease in net finance cost was primarily a result of lower interest expense on long term debt due to the repayment of US\$78.2 million in the second quarter of 2016, partially offset by higher interest expense on other bank borrowing and facilities.

#### ***Second Quarter 2016 versus Second Quarter 2015***

In the second quarter of 2016, net finance costs were \$4.0 million, compared to a net finance cost of \$4.2 million during the second quarter of 2015. The decrease in net finance cost was primarily a result of lower interest

expense on long term debt due to the repayment of US\$78.2 million in the second quarter of 2016, partially offset by higher interest expense on other bank borrowing and facilities.

***Six Months Ended June 30, 2016 versus Six Months Ended June 30, 2015***

For the six months ended June 30, 2016, net finance costs were flat at \$8.7 million, compared to the comparable period in the prior year. Interest expense on long term debt was lower due to the repayment of US\$78.2 million in the second quarter of 2016, but was offset by higher interest expense on other bank borrowing and facilities.

***Income Taxes***

The following table sets forth the income taxes for the following periods:

(in thousands of Canadian dollars)	Three Months Ended			Six Months Ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Income taxes	\$ (5,826)	\$ 2,598	\$ (3,111)	\$ (3,228)	\$ 9,679

***Second Quarter 2016 versus First Quarter 2016***

The Company recorded an income tax recovery of \$5.8 million (12% of loss before income taxes) in the second quarter of 2016, compared to an income tax expense of \$2.6 million (24% of income before income taxes) in the first quarter of 2016. The effective rate of tax recovery in the second quarter of 2016 was lower 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 2016 versus Second Quarter 2015***

The Company recorded an income tax recovery of \$5.8 million (12% of loss before income taxes) in the second quarter of 2016, compared to an income tax recovery of \$3.1 million (27% of loss before income taxes) in the second quarter of 2015. The effective rate of tax recovery in the second quarter of 2016 was lower 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, 2016 versus Six Months Ended June 30, 2015***

The Company recorded an income tax recovery of \$3.2 million (9% of loss before income taxes) during the six-month period ended June 30, 2016, compared to an income tax expense of \$9.7 million (24% of income before income taxes) during the six-month period ended June 30, 2015. The Company's rate of tax recovery for the six month period ended June 30, 2016 was lower 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.

## 4.2 Segment Information

### 4.2.1 Pipeline and Pipe Services Segment

The following table sets forth the revenue by geographic location, 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, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
North America	\$ 99,359	\$ 137,767	\$ 162,822	\$ 237,126	\$ 366,459
Latin America	8,392	28,147	39,586	36,539	77,074
EMAR	89,802	128,514	115,653	218,316	246,532
Asia Pacific	9,437	22,552	34,276	31,989	91,086
<b>Total Revenue</b>	<b>\$ 206,990</b>	<b>\$ 316,980</b>	<b>\$ 352,337</b>	<b>\$ 523,970</b>	<b>\$ 781,151</b>
<b>Operating (Loss) Income</b>	<b>\$ (42,572)</b>	<b>\$ 16,193</b>	<b>\$ 1,905</b>	<b>\$ (26,379)</b>	<b>\$ 57,022</b>
<b>Operating Margin<sup>(a)</sup></b>	<b>(20.6%)</b>	<b>5.1%</b>	<b>0.5%</b>	<b>(5.0%)</b>	<b>7.3%</b>

(a) Operating Margin is defined as Operating Income divided by revenue and is a non-GAAP measure. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies.

#### *Second Quarter 2016 versus First Quarter 2016*

Second quarter revenue decreased by \$110.0 million to \$207.0 million, from \$317.0 million in the first quarter of 2016. Activity levels were lower in all regions:

- In North America, revenue decreased by \$38.4 million, or 28%, as a result of decreased activity levels for small diameter pipe coating and tubular management services in both Canada and in the USA, lower flexible composite pipe volumes, decreased activity levels for large diameter pipe coating and lower pipeline weld inspection services in the USA.
- Latin America revenue decreased by \$19.8 million, or 70%, primarily as a result of lower activity levels at the Company's Argentina facilities and lower volumes at the Veracruz, Mexico facility.
- In Europe, Middle East, Africa and Russia ("EMAR"), revenue decreased by \$38.7 million, or 30%, primarily due to lower volumes from the Company's Baku, Azerbaijan, Ras Al Khaimah, UAE ("RAK") and Italian facilities. This was partially offset by higher volumes at the Orkanger, Norway facility.
- Asia Pacific revenue decreased by \$13.1 million, or 58%, mainly due to lower large project activity levels in Kabil, Indonesia and in Kuantan, Malaysia.

In the second quarter of 2016, the Operating Loss was \$42.6 million compared to an Operating Income of \$16.2 million in the first quarter of 2016, a decrease of \$58.8 million. The decrease in Operating Income was primarily due to a decline in gross profit of \$59.5 million, due to the reduction in revenue of \$110.0 million, as explained above, and a 9.6 percentage point decrease in the gross margin. The decline in gross margin was due to less favourable product and project mix, labour inefficiencies due to lower facility utilization and reduced manufacturing overhead absorption.

#### *Second Quarter 2016 versus Second Quarter 2015*

Revenue was \$207.0 million in the second quarter of 2016, a decrease of \$145.3 million, or 41%, from \$352.3 million in the comparable period of 2015. Revenue was negatively impacted by lower activity levels in all regions:

- In North America, revenue decreased by \$63.5 million, or 39%, primarily due to lower activity levels of large and small diameter pipe coating activity in both Canada and the USA, decreased revenue from

flexible composite pipe sales, a decrease in tubular management services in Canada and decreased land-based pipe weld inspection services revenue in the USA. This was partially offset by the revenue generated by the newly acquired Lake Superior Consulting business.

- In Latin America, revenue decreased by \$31.2 million, or 79%, primarily due to decreased activity levels at the Monterrey, Veracruz and Coatzacoalcos, Mexico facilities and the Company's Argentina facilities.
- EMAR revenue decreased by \$25.9 million, or 22%, primarily due to lower activity levels at the Company's pipe coating facilities in RAK, on the Shah Deniz project in the Caspian and on field joint projects in the region. This was partially offset by higher activity levels at the Company's Orkanger, Norway, Leith, Scotland and Italian facilities.
- Asia Pacific revenue decreased by \$24.8 million, or 72%, due to the lower large project volumes associated with the Company's Kabil, Indonesia and Kuantan, Malaysia facilities.

In the second quarter of 2016, the Operating Loss was \$42.6 million compared to Operating Income of \$1.9 million in the second quarter of 2015, a decrease of \$44.5 million. This reduction was due to a decrease in gross profit of \$55.6 million as a result of the decrease in revenue of \$145.4 million, as explained above, and a 4.9 percentage point decrease in gross margin. The decline in gross margin was due to unfavourable project mix, labour inefficiencies due to lower facility utilization and reduced manufacturing overhead absorption. This was partially offset by lower SG&A expenses, as explained in section 4.1 above.

#### ***Six Months Ended June 30, 2016 versus Six Months Ended June 30, 2015***

Revenue in the Pipeline and Pipe Services segment for the six month period ended June 30, 2016 was \$524.0 million, a decrease of \$257.2 million, from \$781.2 million in the comparable period in the prior year. Segment revenue benefitted from the impact on translation of foreign operations from the weakening Canadian dollar, as noted in section 2.3 above, but was more than offset by lower activity levels in all regions:

- Revenue in North America decreased by \$129.3 million, or 35%, primarily due to lower activity levels of large and small diameter pipe coating activity in both Canada and the USA, decreased revenue from flexible composite pipe sales and a decrease in tubular management services in Canada. This was partially offset by the revenue generated by the newly acquired Lake Superior business.
- In Latin America, revenue was lower by \$40.5 million, or 53%, mainly due to lower activity levels in Brazil and lower volumes at the Coatzacoalcos and Monterrey, Mexico facilities and at the Company's Argentina facilities.
- In EMAR, revenue decreased by \$28.2 million, or 11%, primarily due to decreased pipe coating activity levels in RAK, Orkanger, Norway, on the Shah Deniz project in the Caspian and on other field joint projects, and decreased pipe weld services in the region. This was partially offset by higher activity levels at the Company's Italian and Leith, Scotland facilities.
- Revenue in Asia Pacific decreased by \$59.1 million, or 65%, mainly due to lower volumes associated with large projects at Kuantan, Malaysia and Kabil, Indonesia.

Operating Loss for the six month period ended June 30, 2016 was \$26.4 million compared to Operating Income of \$57.0 million for the six month period ended June 30, 2015, a decrease of \$83.4 million. The decrease in Operating Income is primarily due to a decline in gross profit of \$97.3 million as a result of the decrease in revenue of \$257.2 million, as explained above, and a 1.8 percentage point decrease in gross margin. The decline in gross margin was due to unfavourable project mix, labour inefficiencies due to lower facility utilization and reduced manufacturing overhead absorption. This was partially offset by lower SG&A expenses, as explained in section 4.1 above.

## 4.2.2 Petrochemical and Industrial Segment

The following table sets forth the revenue by geographic location, 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, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
North America	\$ 29,837	\$ 29,611	\$ 27,415	\$ 59,448	\$ 52,921
EMAR	16,277	16,508	15,780	32,785	32,096
Asia Pacific	\$ 2,704	\$ 2,754	\$ 2,649	\$ 5,458	\$ 5,067
<b>Total Revenue</b>	<b>48,818</b>	<b>48,873</b>	<b>45,844</b>	<b>97,691</b>	<b>90,084</b>
<b>Operating Income</b>	<b>\$ 9,751</b>	<b>\$ 7,595</b>	<b>\$ 6,971</b>	<b>\$ 17,346</b>	<b>\$ 13,232</b>
<b>Operating Margin<sup>(a)</sup></b>	<b>20.0%</b>	<b>15.5%</b>	<b>15.2%</b>	<b>17.8%</b>	<b>14.7%</b>

a) Operating Margin is defined as Operating Income divided by revenue and is a non-GAAP measure. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies.

### *Second Quarter 2016 versus First Quarter 2016*

Revenue was flat in the second quarter of 2016 at \$48.8 million, compared to the first quarter of 2016, due to higher shipments of wire and cable products in North America, offset by lower volumes of heat shrink tubing products in the EMAR region.

Operating Income of \$9.8 million in the second quarter of 2016 was \$2.2 million, or 28%, higher than in the first quarter of 2016. Operating Income was higher due to an increase in gross profit of \$1.4 million as a result of a 2.9 percentage point increase in gross margin, primarily due to favourable product mix and a decrease in SG&A expenses.

### *Second Quarter 2016 versus Second Quarter 2015*

In the second quarter of 2016, revenue was \$48.8 million compared to \$45.8 million in the second quarter of 2015, an increase of \$3.0 million, or 6%. The increase was driven primarily by higher heat shrink tubing product volumes, particularly in the automotive sector, and the favourable impact of foreign exchange on revenue, as noted in section 2.3 above.

Operating Income in the second quarter of 2016 was \$9.8 million compared to \$7.0 million in the second quarter of 2015, an increase of \$2.8 million, or 40%. The increase in Operating Income was due to an increase in gross profit of \$2.2 million as a result of a 2.9 percentage point increase in gross margin, primarily due to favourable product mix and higher revenue of \$3.0 million, as explained above. In addition, SG&A expenses were lower by \$0.7 million.

### *Six Months Ended June 30, 2016 versus Six Months Ended June 30, 2015*

Revenue increased in the six months ended June 30, 2016 by \$7.6 million, or 8%, to \$97.7 million compared to the comparable period in 2015, due to increased shipments of wire and cable products in North America, combined with increased heat shrinkable product shipments in North America, EMAR and Asia Pacific and the impact of foreign exchange on revenue, as noted in section 2.3 above.

Operating Income for the six months ended June 30, 2016 was \$17.3 million compared to \$13.2 million for the six months ended June 30, 2015, an increase of \$4.1 million, or 31%. Operating Income was higher due to an increase in gross profit of \$2.5 million as a result of the increase in revenue of \$7.6 million, as explained above, and lower SG&A expenses.

### 4.2.3 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 financial and corporate division of Shawcor does not meet the definition of a reportable operating segment as defined in IFRS, as it does not earn revenue.

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, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Financial and corporate expenses	\$ (7,327)	\$ (6,125)	\$ (13,034)	\$ (13,452)	\$ (21,893)

#### *Second Quarter 2016 versus First Quarter 2016*

Financial and corporate costs increased by \$1.2 million from \$6.1 million during the first quarter of 2016 to \$7.3 million in the second quarter of 2016, primarily due to adjustments recorded in the first quarter of 2016 that reduced stock based and long term management compensation expense by \$1.4 million to reflect the changing market conditions. Also impacting financial and corporate costs were restructuring costs of \$1.4 million in the second quarter of 2016, which were offset by a \$0.5 million decrease in legal and professional consulting fees and a \$1.5 million decrease in personnel related expenses.

#### *Second Quarter 2016 versus Second Quarter 2015*

Financial and corporate costs decreased by \$5.7 million from the second quarter of 2015 to \$7.3 million in the second quarter of 2016. The decrease was primarily due to a \$3.2 million decrease in personnel and management incentive compensation expenses, a \$1.7 million decrease in spending on information systems expenses and \$1.0 million in facility closing costs recorded in the second quarter of 2015.

#### *Six Months Ended June 30, 2016 versus Six Months Ended June 30, 2015*

Financial and corporate costs decreased by \$8.4 million from the six month period ended June 30, 2015 to \$13.5 million for the six month period ended June 30, 2016, primarily due to a decrease in personnel and management incentive compensation expenses of \$4.1 million, a \$4.1 million decrease in information systems expenses and \$1.0 million in facility closing costs recorded in the second quarter of 2015. This was partially offset by a \$1.2 million increase in legal and professional consulting fees.

## 5.0 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,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Net (Loss) Income for the Period</b>	\$ (41,715)	\$ (8,326)	\$ (33,560)	\$ 29,941
Non-cash items	24,654	27,615	47,211	55,669
Settlement of decommissioning obligations	(3)	–	(6)	(6)
Settlement of other provisions	(3,553)	(1,601)	(11,292)	(2,808)
Net change in employee future benefits	(916)	(297)	(313)	27
Net change in non-cash working capital and foreign exchange	(10,191)	90,359	51,988	41,222
Cash provided by operating activities	(31,724)	107,750	54,028	124,045
Cash used in investing activities	(21,796)	(21,922)	(65,194)	(55,871)
Cash (used in) provided by financing activities	(110,589)	(15,401)	(120,383)	(26,651)
Effect of foreign exchange on cash and cash equivalents	1,548	(2,677)	(13,480)	7,290
<b>Net Change in Cash and Cash Equivalents</b>	<b>(162,561)</b>	<b>67,750</b>	<b>(145,029)</b>	<b>48,813</b>
Cash and cash equivalents at beginning of period	278,177	97,619	260,645	116,556
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 115,616</b>	<b>\$ 165,369</b>	<b>\$ 115,616</b>	<b>\$ 165,369</b>

The Company expects to generate sufficient cash flows and have continued access to its credit facilities to meet contractual obligations and planned development and growth initiatives as and when they are required. The Company expects that working capital investment will be required to support revenue growth consistent with historical working capital measures as noted in Section 5.4. The Company typically utilizes its available cash balances and its committed credit facilities to fund working capital requirements.

### 5.1 Cash Provided by Operating Activities

#### *Second Quarter 2016 versus Second Quarter 2015*

Cash used by operating activities was \$31.7 million in the second quarter of 2016, a decrease of \$139.5 million from cash provided by operating activities of \$107.8 million in the second quarter of 2015. The decrease was due to an increase in net loss of \$33.4 million, decreases in non-cash items of \$3.0 million, in cash provided by non-cash working capital and foreign exchange of \$100.6 million and in settlement of other provisions of \$2.0 million. The decrease in cash provided by non-cash working capital and foreign exchange reflected net decreases in accounts receivable of \$66.1 million, in accounts payable and accrued liabilities of \$49.3 million, in taxes payable of \$23.1 million and in inventory of \$7.6 million. This was partially offset by net increases in taxes receivable of \$22.7 million, in deferred revenue of \$14.8 million and a change in the movement of foreign currency items of \$8.6 million. Net income decreased primarily due to the reasons discussed in section 4.1 above.

#### *Six Months Ended June 30, 2016 versus Six Months Ended June 30, 2015*

Cash provided by operating activities was \$54.0 million during the six month period ended June 2016, a decrease of \$70.0 million, from \$124.0 million in the six month period ended June 2015. The decrease was due to an increase in net loss of \$63.5 million, decreases in non-cash items of \$8.5 million and in settlement of other provisions of \$8.5 million, partially offset by an increase in non-cash working capital and foreign exchange of \$10.8 million. The increase in cash provided by non-cash working capital and foreign exchange reflected net increases in accounts receivable of \$77.3 million, in inventory of \$42.2 million and in taxes receivable of \$27.1 million. This was partially offset by net decreases in accounts payable and accrued liabilities of \$91.0 million, in tax payable of \$14.7 million, in deferred revenue of \$9.8 million and a change in the movement of foreign

currency items of \$20.0 million. Net income decreased primarily due to the reasons discussed in section 4.1 above.

## 5.2 Cash Used in Investing Activities

### *Second Quarter 2016 versus Second Quarter 2015*

Cash used in investing activities decreased by \$0.1 million, from \$21.9 million in the second quarter of 2015 to \$21.8 million in the second quarter of 2016. The decrease is attributed to decreases in short-term investments of \$5.8 million and in investment in associates of \$3.3 million, partially offset by an increase in spending on business acquisitions of \$6.8 million and an increase in other assets of \$2.0 million.

### *Six Months Ended June 30, 2016 versus Six Months Ended June 30, 2015*

Cash used in investing activities increased by \$9.3 million, from \$55.9 million during the six month period ended June 2015 to \$65.2 million during the six month period ended June 2016. This was mainly due to higher spending on business acquisitions of \$15.3 million, an increase in other assets of \$3.1 million and an increase in the purchase of property, plant and equipment net of proceeds of \$2.6 million, partially offset by decreases in short-term investments of \$7.1 million, in investment in associates of \$3.3 million and lower outflows in deferred purchase consideration payment of \$1.3 million.

## 5.3 Cash Used in Financing Activities

### *Second Quarter 2016 versus Second Quarter 2015*

Cash used in financing activities increased by \$95.2 million, from \$15.4 million in the second quarter of 2015 to \$110.6 million in the second quarter of 2016. This was mainly due to the repayment of US\$78.2 million (CDN\$101.8 million) of Senior Notes, partially offset by a decrease in bank indebtedness repayment of \$6.1 million and an increase in issuance of shares of \$0.6 million.

### *Six Months Ended June 30, 2016 versus Six Months Ended June 30, 2015*

Cash used in financing activities increased by \$93.7 million, from \$26.7 million in the six month period ended June 2015 to \$120.4 million during the six month ended June 2016. This was mainly due to the repayment of US\$78.2 million (CDN\$101.8 million) of Senior Notes, partially offset by a decrease in bank indebtedness repayment of \$4.7 million, a decrease in repayment of loan of \$2.0 million and an increase in issuance of shares of \$1.1 million.

## 5.4 Liquidity and Capital Resource Measures

### *Accounts Receivables*

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

(in thousands of Canadian dollars, except DSO)	<b>June 30, 2016</b>	December 31, 2015	Change
Average trade accounts receivable	\$ 176,402	\$ 301,966	\$ (125,564)
DSO <sup>(a)</sup>	<b>62</b>	60	2

(a) DSO, a non-GAAP measure, is the average number of days that trade accounts receivables-net (which excludes unbilled and other receivables) are outstanding based on a 90 day cycle. Non-GAAP measures do not have standardized meanings under IFRS. 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. Non-GAAP measures should not be considered in isolation or used as an alternative to other measures of performance prepared in accordance with GAAP. Refer to *Section 10.0 – Reconciliation of non-GAAP Measures* for additional information with respect to non-GAAP measures used by Company.

Average trade accounts receivables decreased by \$125.6 million, from \$302.0 million as at December 31, 2015 to \$176.4 million as at June 30, 2016, as a result of decreased revenue in the first six months of 2016 compared with the fourth quarter of 2015. DSO increased by 2 days during the second quarter of 2016 as compared to the fourth quarter of 2015.

### ***Inventory***

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

(in thousands of Canadian dollars)	<b>June 30, 2016</b>	December 31, 2015	Change
Inventories	\$ <b>127,209</b>	\$ 167,557	\$ (40,348)

Inventories decreased by \$40.3 million, from \$167.6 million as at December 31, 2015 to \$127.2 million as at June 30, 2016, as a result of decreases in raw materials and supplies of \$19.9 million, work-in-process of \$5.4 million, finished goods of \$11.7 million and inventory obsolescence of \$2.1 million.

### ***Accounts Payable***

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

(in thousands of Canadian dollars, except DPO)	<b>June 30, 2016</b>	December 31, 2015	Change
Average accounts payable and accrued liabilities	\$ <b>218,832</b>	\$ 288,383	\$ (69,551)
DPO <sup>(a)</sup>	<b>107</b>	86	21

(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. Non-GAAP measures do not have standardized meanings under IFRS. 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. Non-GAAP measures should not be considered in isolation or used as an alternative to other measures of performance prepared in accordance with GAAP. Refer to *Section 10.0 – Reconciliation of non-GAAP Measures* for additional information with respect to non-GAAP measures used by Company.

Average accounts payable and accrued liabilities decreased by \$69.6 million, from \$288.4 million as at December 31, 2015, to \$218.8 million as at June 30, 2016. DPO increased by 21 days from 2015 levels, due to changes in the timing of purchases and payments in the second quarter of 2016 compared with the fourth quarter of 2015.

## **5.5 Unsecured Credit Facilities**

(in thousands of Canadian dollars)	<b>June 30, 2016</b>	December 31, 2015
Bank indebtedness	\$ –	\$ –
Standard letters of credit for performance and bid bonds	<b>68,561</b>	132,052
Total utilized credit facilities	<b>68,561</b>	132,052
Total available credit facilities <sup>(a)</sup>	<b>487,763</b>	623,970
<b>Unutilized credit facilities</b>	<b>\$ 419,202</b>	\$ 491,918

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

On March 20, 2013, the Company renewed its 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 million from US\$150 million to US\$250 million, with an option to increase the credit limit to US\$400 million with the consent of lenders. On June 16, 2015, the option to increase the credit limit to US\$400 million was exercised with the consent of the lenders and a new option to increase the credit limit to US \$550 million with the consent of the

lenders was added. The Company pays a floating interest rate on this credit facility that is a function of the Company's Total Debt to EBITDA ratio. Allowable credit utilization outside of this facility is US \$50 million. In May 2016, the Company and the lenders agreed to certain amendments to the Credit Facility, including a reduction in the credit limit to US\$325 million as described below in the section captioned, "Amendments to Senior Notes Agreement and Credit Facility".

### **Repurchase of US\$78 Million of Long-term Debt ("Senior Notes")**

In the second quarter of 2016, the Company utilized a portion of its existing cash balances to repurchase approximately US\$78 million of its Senior Notes at a purchase price of approximately US\$79 million plus accrued interest.

### **Amendments to Senior Notes Agreement and Credit Facility**

On May 10, 2016, the Company entered into amending agreements with holders of its Senior Notes and the syndicate of lenders under the Credit Facility. The principal amendments to the agreements with the holders of the Senior Notes and to the Credit Facility were as follows:

- a) an increase in the Company's permitted Total Debt to EBITDA covenant (the "Leverage Ratio") (currently a maximum of 3.00 to 1.00) to 4.25 to 1.00 for the fiscal quarters ending September 30, 2016 and December 31, 2016;
- b) at the Company's option, an increase in the Leverage Ratio to 3.75 to 1.00 and 3.5 to 1.00 for the quarters ending March 31, 2017 and June 30, 2017, respectively;
- c) increased interest rates and standby and other fees payable to Senior Notes holders, and under the Credit Facility during any period when the Company is permitted an increased Leverage Ratio (an "Increased Leverage Period");
- d) a reduction in the size of the Credit Facility from US\$400 million to US\$325 million; and
- e) a change to the definition of the Leverage Ratio, which currently permits deductions from Total Debt of up to US\$75 million in letters of credit which are performance guarantees ("Performance Guarantees"), to permit deduction from Total Debt of up to US\$100 million in Performance Guarantees on a permanent basis and up to US\$150 million in Performance Guarantees on a temporary basis during any Increased Leverage Period.

The Company incurred fees and expenses to implement these amendments of \$2.1 million in the second quarter of 2016.

### ***Debt Covenants***

The Company has undertaken to maintain certain covenants in respect of the Credit Facility. Specifically, the Company is required to maintain an Interest Coverage Ratio (EBITDA plus rental payments divided by interest expense plus rental payments) of more than 2.50 to 1 and Leverage Ratio of less than 3.00 to 1. The Company was in compliance with these covenants as at June 30, 2016 and December 31, 2015. As described above, the Leverage Ratio has been increased to 4.25 to 1 for the quarters ended September 30 and December 31, 2016, and the Company may elect to increase the Leverage Ratio to 3.75 to 1 and 3.5 to 1 for the quarters ended March 31 and June 30, 2017, respectively.

As described in *Section 7.0 – Outlook*, the Company expects to generate materially lower earnings in 2016. As a result, continued compliance with debt covenants may require the Company to utilize existing cash balances to reduce outstanding debt. Additionally, the Company will continue to monitor its financial performance over the coming quarters to ensure it remains in compliance with its covenants, and if necessary, initiate discussions to amend the terms of its debt covenants with respect to its Credit Facility and Senior Notes to ensure compliance.

## 5.6 Senior Notes

The total Senior Notes balance as at June 30, 2016 is \$353.3 million (US\$271.8 million) (December 31, 2015 – \$485.1 million (US\$350.0 million)). The Senior Notes have been designated as a hedge of the Company's net investment in its US dollar functional currency subsidiary as described in note 14 in the interim unaudited consolidated financial statements.

The Company has undertaken to maintain certain covenants in respect of the Senior Notes that are consistent with the debt covenants described for the Company's Credit Facility. The Company was in compliance with these covenants as at June 30, 2016 and December 31, 2015. Please refer to section 3.0 for a description of the Senior Note repayments made in the second quarter of 2016 and section 5.5 for a description of the changes made to the debt covenants under the Credit Facility and Senior Notes during May 2016.

## 5.7 Contingencies and Off Balance Sheet Arrangements

### *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)	2016	2017	2018	2019	2020	After 2020	Total
Purchase commitments	\$ 46,585	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 46,585
Accounts payable	89,093	117	–	–	–	–	89,210
Deferred purchase consideration	3,748	–	–	–	–	–	3,748
Long-term debt	–	–	–	–	103,720	249,623	353,343
Finance costs on long-term debt	7,415	15,715	12,618	12,618	10,300	38,079	96,745
Obligations under finance leases	714	1,375	1,363	1,363	1,363	10,773	16,951
Operating leases	21,556	18,512	13,613	10,330	7,450	16,093	87,554
<b>Total contractual obligations</b>	<b>\$ 169,111</b>	<b>35,719</b>	<b>\$ 27,594</b>	<b>\$ 24,311</b>	<b>\$122,833</b>	<b>\$ 314,568</b>	<b>\$ 694,136</b>

### Legal Claims

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

### Performance, Bid and Surety Bonds

The Company provides standby letters of credit and 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 letter of credit or bond as compensation for the Company's failure to perform. The contracts that these letters of credit and 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 letters of credit and bonds.

The Company's utilizes its credit facilities to support the Company's bonds. The Company had utilized credit facilities of \$52.6 million as at June 30, 2016 (December 31, 2015 – \$132.1 million) for support of its bonds. In

addition, as at June 30, 2016, the Company had \$98.1 million of outstanding surety bonds through insurance companies (December 31, 2015– \$130.8 million). In May 2016, the Company entered into agreements to, among other things, reduce the size of its Credit Facility and amend certain covenants under the Credit Facility and its Senior Notes. Please refer to Section 5.5 for a description of the reduction in the size of the Credit Facility and the amended covenants applicable to the Credit Facility and Senior Notes.

## 5.8 Financial Instruments and Other Instruments

### *Fair Value*

*IFRS 13, Fair Value Measurement*, provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs are those which reflect market data obtained from independent sources, while unobservable inputs reflects 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 the fair value hierarchy levels for the financial assets and liabilities as at June 30, 2016:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 115,616	\$ 115,616	\$ –	\$ –
Short-term investments	2,776	2,776	–	–
Derivative financial instruments	4,091	–	4,091	–
Convertible preferred shares	10,000	–	–	10,000
Deposit guarantee	197	–	197	–
	<b>\$ 132,680</b>	<b>\$ 118,392</b>	<b>\$ 4,288</b>	<b>\$ 10,000</b>
<b>Liabilities</b>				
Deferred purchase consideration	3,748	–	3,748	–
Long-term debt	320,788	–	320,788	–
Derivative financial instruments	1,373	–	1,373	–
	<b>\$ 325,909</b>	<b>\$ –</b>	<b>\$ 325,909</b>	<b>\$ –</b>

The 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.

### *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, 2016, 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 by approximately \$25.3 million, \$0.1 million and \$0.3 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 \$63.1 million, \$14.1 million and \$49.0 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.

### 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.

The following table sets out the notional amounts outstanding under foreign exchange contracts, the average contractual exchange rates and the settlement of these contracts as at June 30, 2016:

(in thousands, except weighted average rate amounts)	
Canadian dollars sold for US dollars	
Less than one year	<b>C\$ 14,832</b>
Weighted average rate	<b>0.75</b>
US dollars sold for Canadian dollars	
Less than one year	<b>US\$ 14,664</b>
Weighted average rate	<b>1.32</b>
US dollars sold for Euros	
Less than one year	<b>US\$ 30,706</b>
Weighted average rate	<b>0.89</b>
Euros sold for US dollars	
Less than one year	<b>€ 27,619</b>
Weighted average rate	<b>1.11</b>
Euros sold for British Pounds Sterling	
Less than one year	<b>€ 2,400</b>
Weighted average rate	<b>0.81</b>
US dollars sold for Malaysian Ringgits	
Less than one year	<b>US\$ 2,000</b>
Weighted average rate	<b>4.13</b>

US dollars sold for British Pounds Sterling	
Less than one year	US\$ 1,337
Weighted average rate	0.75
British Pounds Sterling sold for US dollars	
Less than one year	£ 407
Weighted average rate	1.44
Norwegian Kroners sold for US dollars	
Less than one year	NOK 119,454
Weighted average rate	0.12

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

As at June 30, 2016, the Company had notional amounts of \$140.6 million of foreign exchange forward contracts outstanding (December 31, 2015 – \$145.7 million) with the fair value of the Company's net loss from all foreign exchange forward contracts totalling \$0.7 million (December 31, 2015 – \$1.0 million net gain).

#### 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 US dollar as its functional currency. During the six-month period ended June 30, 2016, a gain of \$29.9 million on the translation of the long-term debt was transferred to other comprehensive income to offset the losses on translation of the net investment in the US dollar functional currency subsidiary. There was no ineffectiveness of this hedge for the six month period ended June 30, 2016.

#### Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at June 30, 2016:

(in thousands of Canadian dollars)	Non- Interest Bearing	Floating Rate	Fixed Interest Rate	Total
<b>Financial assets</b>				
Cash equivalents	\$ –	\$ –	\$ 11,840	\$ 11,840
Short-term investments	2,776	–	–	2,776
Loans receivable	189	4,846	2,413	7,448
Convertible preferred shares	10,000	–	–	10,000
	<b>\$ 12,965</b>	<b>\$ 4,846</b>	<b>\$ 14,253</b>	<b>\$ 32,064</b>
<b>Financial Liabilities</b>				
Standard letters of credit for performance, bid and surety bonds	\$ 68,561	\$ –	\$ –	\$ 68,561
Long-term debt	–	–	353,343	353,343
	<b>\$ 68,561</b>	<b>\$ –</b>	<b>\$ 353,343</b>	<b>\$ 421,904</b>

The Company's interest rate risk arises primarily from its floating rate on its loans 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.

For the quarter ended June 30, 2016, the Company had no customer who generated revenue greater than 10% of total consolidated revenue.

## 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, 2016, the Company had cash and cash equivalents totalling \$115.6 million (December 31, 2015 – \$260.6 million) and had unutilized lines of credit available to use of \$419.2 million (December 31, 2015 - \$491.9 million).

### **5.9 Outstanding Share Capital**

As at August 5, 2016, the Company had 64,617,205 common shares outstanding and stock options and share units outstanding to purchase up to 2,033,085 common shares.

### **5.10 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, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **5.11 Transactions with Related Parties**

The Company had no material transactions with related parties in the first half of 2016. All related party transactions were in the normal course of business.

## **6.0 Critical Accounting Judgments, Estimates and Accounting Policy Developments**

### **6.1 Critical Judgments**

The following are critical judgments management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the interim unaudited consolidated financial statements.

#### ***Materiality***

Management must make assessments about whether line items are sufficiently material to warrant separate presentation in the primary financial statements and, if not, whether they are sufficiently material to warrant separate presentation in the financial statement notes.

#### ***Determination of Reportable Operating Segments***

Management has exercised judgement in evaluating the defined aspects of its operating segments, aggregation criteria, and quantitative thresholds that form the reportable operating segments of the Company. Management

has also exercised professional judgement in determining that the Company's Chief Executive Officer ("CEO") is the Company's Chief Operating Decision Maker ("CODM").

#### ***Determination of Cash Generating Unit ("CGU")***

Management has exercised judgement in identifying the CGUs of the Company. In performing impairment assessments of long-lived assets, assets that cannot be assessed individually are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Determination of CGUs is also required for impairment testing of goodwill.

#### ***Business Acquisitions***

Significant judgments and assumptions are made in compiling the purchase price allocation for acquired companies. Management has exercised professional judgement in determining the total consideration paid in an acquisition, including any contingent consideration, and in determining the assets and liabilities that should be part of the purchase price accounting. Management has also exercised judgement in identifying intangible assets and in choosing the appropriate valuation models and techniques to determine their fair values. Management has also exercised professional judgement in characterizing the composition of any residual goodwill.

#### ***Provisions and Contingent Liabilities***

As at June 30, 2016, the Company had \$60.4 million of provisions; of this amount \$23.2 million was included in current liabilities and \$39.6 million was included in non-current liabilities. Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable that there will be a future outflow of economic benefits resulting from past operations or events and the amount of the cash outflow can be reliably measured. The timing of recognition and measurement of the provision requires the application of judgement to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take into account changing facts and circumstances.

The Company is required to determine whether a loss is probable based on judgement and interpretation of laws and regulations and whether the loss can be reliably measured. When a loss is determined, it is charged to the consolidated statements of income. The Company must continually monitor known and potential contingent matters and make appropriate provisions by charges to income when warranted by circumstances.

#### ***Decommissioning liabilities***

Management is required to apply judgement in determining whether any legal or constructive obligation exist to dismantle, remove or restore its assets, including any obligation to rehabilitate environmental damage on its properties. Management is required to make significant assumptions in determining the obligation for decommissioning liabilities. There are numerous factors that will affect the liability payable including the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates.

#### ***Income Taxes***

The calculation of income taxes requires judgement in interpreting tax rules and regulations. There are transactions and calculations for which the ultimate tax determination is uncertain. The tax filings also are subject to audits, the outcome of which could change the amount of current and deferred tax assets and liabilities. Management believes that it has sufficient amounts accrued for outstanding tax matters based on information that currently is available.

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Management judgement is used to determine the amounts of deferred tax assets and liabilities to be recognized, based upon the likely timing and the level of future taxable

profit together with future tax planning strategies. In particular, judgement is required when assessing the timing of the reversal of temporary differences to which future income tax rates are applied.

## **6.2 Critical Accounting Estimates**

The preparation of the interim unaudited 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 interim unaudited consolidated financial statements include:

### ***Long-lived Assets and Goodwill***

As at June 30, 2016, the Company had \$1,140.1 million of long-lived assets and goodwill. The Company evaluates the carrying values of the Cash Generating Units' 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 values of CGUs for long-lived assets whenever circumstances arise that could indicate impairment or reversal of impairment, and 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 and estimates.

### ***Employee Future Benefit Obligations***

As at June 30, 2016, the Company had \$32.3 million of employee future benefit obligations. The Company provides future benefits to its employees under a number of defined benefit arrangements. The calculation of the defined benefit obligation recognized in the interim unaudited consolidated financial statements includes a number of assumptions regarding discount rates, rates of employee compensation increases, rates of inflation, 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.

### ***Decommissioning Liabilities***

As at June 30, 2016, the Company had decommissioning liabilities in the amount of \$32.4 million; of this amount \$7.9 million was included in the current provisions account and \$24.5 million was recorded in the non-current provisions account. Decommissioning liabilities include legal and constructive obligations related to owned and leased facilities. These have been recorded in the interim unaudited consolidated financial statements based on estimated future amounts required to satisfy these obligations. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a current pre-tax risk-free rate.

### ***Financial Instruments***

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

### ***Income Taxes***

The recording of income tax expense includes certain estimations related to the impact in the current year of future events. Differences between the estimated and actual impact of these events could impact tax expense,

current taxes payable or deferred taxes. In particular, income and losses in foreign jurisdictions may be taxed at rates different from those expected in Canada. Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the losses can be utilized.

Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and tax expense already recorded. The Company establishes liabilities, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such liabilities is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the domicile of the respective entities.

### **6.3 Accounting Standards Issued but Not Yet Applied**

#### ***IFRS 2, Share-based Payment***

In June 2016, the IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendments are effective for annual periods beginning on or after January 1, 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. The Company has not yet determined the impact of this standard on the interim unaudited consolidated financial statements.

#### ***IFRS 9, Financial Instruments***

In July 2014, the IASB issued the final version of *IFRS 9 – Financial Instruments*, which replaces all phases of the financial instruments project, *IAS 39 – Financial Instruments: Recognition and Measurement* and all previous versions of *IFRS 9*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has not yet determined the impact of this standard on the interim unaudited consolidated financial statements.

#### ***IFRS 15 – Revenue from Contracts with Customers***

In May 2014, the IASB issued *IFRS 15*, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Under *IFRS 15*, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in *IFRS 15* provide a more structured approach to measuring and recognizing revenue.

In April 2016, certain amendments were made to the original standard issued in May 2014. The amendments to the Revenue Standard do not change the underlying principles of the Standard but clarify how those principles should be applied.

The amendments clarify how to:

- identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract;

- determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
- determine whether the revenue from granting a licence should be recognised at a point in time or over time.

In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

*IFRS 15* is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of reviewing the standard to determine the impact on the interim unaudited consolidated financial statements.

#### ***IFRS 16 – Leases***

*IFRS 16*, issued by the IASB in January 2016, supersedes *IAS 17 Leases* (and related Interpretations). The standard is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted for entities that have also adopted *IFRS 15, Revenue from Contracts with Customers*. The new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The most significant effect of the new requirements will be an increase in leased assets and financial liabilities. The Company has not yet determined the impact of this standard on the interim unaudited consolidated financial statements.

## **6.4 New Accounting Standards Adopted**

### ***Amendments to IAS 1 Disclosure Initiative***

The amendments to *IAS 1* clarify, rather than significantly change, existing *IAS 1* requirements. The amendments clarify:

- The materiality requirements in *IAS 1*;
- That specific line items in the statements of income, comprehensive income and financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of income and comprehensive income. These amendments are effective for annual periods beginning on or after January 1, 2016. The Company's adoption of these amendments did not have a material impact on the interim unaudited consolidated financial statements.

### ***IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets***

In May 2014, the IASB issued amendments to *IAS 16* and *IAS 38*, prohibiting the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortization for intangible assets. These amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. The adoption of these amendments did not have a material impact on the interim unaudited consolidated financial statements.

### ***Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests***

The amendments to *IFRS 11* require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant *IFRS 3 Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to *IFRS 11* to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

## **7.0 Outlook**

The decline in global oil and gas prices continues to negatively impact demand for the Company's products and services in two ways. First has been the reduction in expenditures by customers on the drilling and completion of wells which has affected the Pipeline and Pipe Services Segment - North America region. The second impact of lower energy or oil and gas prices has been the curtailment in large oil and gas greenfield development projects which in turn has impacted the international regions of the Pipeline and Pipe Services Segment. These trends culminated in the Company's very weak financial performance in the second quarter.

In the third quarter, performance will benefit from the launch of flow assurance gathering line coating for the Shah Deniz project at the Kabil, Indonesia facility and a modest improvement in North American well completion activity. A return to profitable levels of operating activity is expected for the fourth quarter when the Shah Deniz flow assurance project will be in full production and anti-corrosion coating of pipe destined for the Sur de Texas – Tuxpan project in Mexico commences. In the first quarter of 2017, Shawcor will reach full production on the concrete coating scope of work for the Sur de Texas – Tuxpan project. The Sur de Texas – Tuxpan pipeline project, with an estimated value of in excess of \$350 million, combined with a modest but steady improvement in North American well completion activity, is expected to enable the Company to deliver strong growth in financial performance in 2017.

Despite the environment of continued low global oil and gas prices, the Company does note that certain long term natural gas pipeline infrastructure projects are continuing to be approved for development by project sponsors. This is particularly the case where the construction of the infrastructure supports the supply of natural gas for domestic consumption. The Sur de Texas – Tuxpan project in Mexico is an example of this trend. Other projects with similar supply/demand characteristics are currently being bid and the Company believes that many of these projects will be developed over time. This, combined with the expectation that North American oilfield activity will stabilize and slowly recover, creates the potential for an improved outlook beyond 2017.

Further detail on the outlook for the Pipeline and Pipe Services segment by region and in the Petrochemical and Industrial segment is set out below.

### ***Pipeline and Pipe Services Segment - North America***

Shawcor's North American Pipeline segment businesses continue to be impacted by the reduction in well completion activity in North America which has reduced demand for small diameter pipe coating and joint protection, composite pipe for gathering line applications, OCTG pipe inspection and refurbishment and gathering line girth weld inspection. Demand for these products and services is not expected to begin to recover until global oil prices exhibit sustained increases and the number of wells drilled and completed begins to increase. Some improvement is possible in the second half of 2016 but more likely, a sustained improvement in demand will not happen until 2017 at the earliest.

Also contributing to an expected decline in revenue and earnings in the Company's North American Pipeline segment during 2016 will be a slowdown in the build of new large diameter transmission pipeline infrastructure,

partially as a result of regulatory delays and partially due to capital expenditure constraints by pipeline operators. This weakness is expected to continue throughout the second half of 2016.

#### ***Pipeline and Pipe Services Segment - Latin America***

Consistent with all of the Company's Pipeline segment regions, lower spending on oil and gas infrastructure by our clients will translate into a reduction in new project activity in 2016. In 2017, the recent award of the Sur de Texas – Tuxpan project in Mexico, with an estimated value in excess of \$350 million, provides confidence that that revenue in the region will recover strongly and provide a strong source for improved Shawcor financial performance.

#### ***Pipeline and Pipe Services Segment - EMAR***

The completion of the concrete coating scope of work of the Shah Deniz project and the two South Stream pipe coating projects has translated into a decline in activity in the EMAR region that is expected to continue in the second half of 2016. Beyond 2016, the potential exists for an improvement in revenue should the Company be successful in securing work that is currently being tendered, however the timing and likelihood of projects proceeding is subject to continued uncertainty as pipeline operators continue to defer capital spending projects, particularly those that involve greenfield offshore oil developments.

#### ***Pipeline and Pipe Services Segment - Asia Pacific***

In the second half of 2016, the Company is expecting revenue growth in the Asia Pacific region based on booked orders for the flow assurance scope of work for the Shah Deniz project and the commencement of anti-corrosion coating for pipe destined for Mexico for the Sur de Texas – Tuxpan project. Beyond 2016, the Asia Pacific region is subject to the same uncertainty regarding project timing as noted for the EMAR region above.

#### ***Petrochemical and Industrial Segment***

Shawcor's Petrochemical and Industrial segment businesses continue to deliver steady growth in revenue and earnings based on consistent demand growth in the North American and European automotive, industrial and nuclear refurbishment markets served by the segment. This trend is expected to continue in the second half of 2016 and beyond with the segment targeting increased revenue growth in 2017 as new capacity for control cable and sealing and insulation products enter production.

#### ***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, 2016 of \$506 million improved by 41% from \$358 million at March 31, 2016. The increase in the backlog is due primarily to the award of the Sur de Texas – Tuxpan project in Mexico. This project has an estimated value in excess of \$350 million of which approximately 30% is included in the backlog at June 30, 2016 with the remainder set to enter the backlog between now and December 31, 2016 based on the twelve month forecast production.

In addition to the backlog, the Company closely monitors its bidding activity and the value of outstanding firm bids is currently approximately \$700 million. In addition, the Company has provided budgetary estimates and is currently working with customers on projects with aggregate values of in excess of \$1 billion. Although the value of firm bids has declined following the award of the Sur de Texas – Tuxpan and Nordstream 2 projects, the total level of project activity that the Company is pursuing is very high and provides a basis for potential backlog growth in 2017 and beyond.

## 8.0 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 the Company's projections, business, results of operations and financial condition. A more complete outline of the risks and uncertainties facing the Company is included in the annual MD&A contained in the Company's 2015 Annual Report. There were no other material changes in the nature or magnitude of such business risks during the six-month period ended June 30, 2016, other than as noted in *Section 5.5* under Debt Covenants.

## 9.0 Environmental Matters

As at June 30, 2016, the provisions on the consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were \$31.3 million. The Company believes these provisions to be sufficient to fully satisfy all liabilities related to known environmental matters.

The total undiscounted cash flows estimated to settle all decommissioning liabilities is \$41.9 million as at June 30, 2016. The current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0.26% and 8.29%. Settlement for all decommissioning liabilities is expected to be funded by future cash flows from the Company's operations.

The Company expects the following cash outflows over the next five years and thereafter for decommissioning liabilities.

(in thousands of Canadian dollars)	<b>June 30, 2016</b>
2016	\$ 7,917
2017	325
2018	1,925
2019	3,263
2020	3,461
More than five years	24,965
	<b>\$ 41,856</b>

## 10.0 Reconciliation of Non-GAAP Measures

The Company reports on certain non-GAAP measures that are used to evaluate its performance and segments, as well as to determine compliance with debt covenants and to manage the capital structure. Non-GAAP measures do not have standardized meanings under IFRS and are not necessarily comparable to similar measures provided by other companies. The Company discloses these measures because it believes that they assist readers in understanding the results of the Company's operations and financial position and are meant to provide further information about its financial results to readers. These measures should not be considered in isolation or used in substitution for other measures of performance prepared in accordance with GAAP. The following is a reconciliation of the non-GAAP measures reported by the Company.

## EBITDA and ADJUSTED EBITDA

(in thousands of Canadian dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Net (loss) income for the period</b>	\$ (41,715)	\$ (8,326)	\$ (33,560)	\$ 29,941
<b>Add:</b>				
Income taxes expense	(5,826)	(3,111)	(3,228)	9,679
Finance costs, net	3,973	4,213	8,717	8,661
Amortization of property, plant, equipment and intangible assets	20,291	20,154	41,424	38,874
<b>EBITDA<sup>(a)</sup></b>	\$ (23,277)	\$ 12,930	\$ 13,353	\$ 87,155
Gain on sale of land	(511)	–	(511)	–
One-time costs on repayment of Senior Notes	2,061	–	2,061	–
Impairment	1,429	–	1,429	–
<b>ADJUSTED EBITDA<sup>(a)</sup></b>	\$ (20,298)	\$ 12,930	\$ 16,332	\$ 87,155

(a) Adjusted EBITDA and EBITDA are used by many analysts in the oil and gas industry as one of several important analytical tools.

EBITDA is a non-GAAP measure defined as earnings before interest, income taxes, depreciation and amortization. Adjusted EBITDA is also a non-GAAP measure defined as EBITDA adjusted for non-operational items. The Company believes that EBITDA and Adjusted EBITDA are useful supplemental measures that provide 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. The Company presents Adjusted EBITDA as a measure of EBITDA that excludes the impact of transactions that are outside the Company's normal course of business.

### Days Sales Outstanding

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, except DSO)	June 30, 2016	December 31, 2015
Revenue for the quarter	\$ 255,359	\$ 455,260
Average trade accounts receivable	\$ 176,402	\$ 301,966
<b>DSO</b>	<b>62</b>	<b>60</b>

### Days Payables Outstanding

DPO is defined as the average number of days from when purchased goods and services are received by the Company until payment is made to the Company's 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, except DPO)	<b>June 30, 2016</b>	December 31, 2015
Cost of goods sold and services rendered for the quarter	\$ <b>184,489</b>	\$ 303,510
Average accounts payable and accrued liabilities	\$ <b>218,832</b>	\$ 288,383
<b>DPO</b>	<b>107</b>	86

## 11.0 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)	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Full Year</b>
<b>Revenue</b>					
<b>2016</b>	<b>365,579</b>	<b>255,359</b>	–	–	–
2015	471,940	398,020	485,428	455,260	1,810,648
2014	479,082	441,386	469,597	499,964	1,890,029
<b>Income (loss) from operations</b>					
<b>2016</b>	<b>15,950</b>	<b>(40,792)</b>	–	–	–
2015	55,616	(7,078)	55,195	45,696	149,429
2014	89,419	69,193	10,932	(20,868)	148,676
<b>Net income (loss)<sup>(a)</sup></b>					
<b>2016</b>	<b>7,461</b>	<b>(41,678)</b>	–	–	–
2015	37,774	(8,538)	38,107	30,901	98,244
2014	61,947	47,949	5,617	(20,652)	94,861
<b>Income (loss) from operations per share</b>					
<b>Basic</b>					
<b>2016</b>	<b>0.25</b>	<b>(0.63)</b>	–	–	–
2015	0.86	(0.11)	0.86	0.70	2.31
2014	1.49	1.15	0.18	(0.32)	2.42
<b>Diluted</b>					
<b>2016</b>	<b>0.25</b>	<b>(0.63)</b>	–	–	–
2015	0.86	(0.11)	0.86	0.71	2.32
2014	1.48	1.14	0.18	(0.32)	2.41
<b>Net income (loss) per share</b>					
<b>Basic</b>					
<b>2016</b>	<b>0.12</b>	<b>(0.65)</b>	–	–	–
2015	0.59	(0.13)	0.59	0.48	1.52
2014	1.03	0.80	0.09	(0.32)	1.55
<b>Diluted</b>					
<b>2016</b>	<b>0.12</b>	<b>(0.65)</b>	–	–	–
2015	0.58	(0.13)	0.59	0.48	1.52
2014	1.03	0.79	0.09	(0.32)	1.53

(a) Represents the net income attributable to shareholders of the Company.

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 81% of the Company's consolidated revenue in the second quarter of 2016, 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 US 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.

## **12.0 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, judgements and uncertainties. These statements may be identified by the use of forward looking terminology such as "may", "will", "should", "anticipate", "expect", "believe", "predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward looking information in the Outlook section and elsewhere in respect of, among other things, the achievement of key performance objectives, the incurrence of additional capital expenditures as necessary to facilitate growth in new markets, the timing of major project activity, including the commencement of the Sur de Texas – Tuxpan contract, the decline in consolidated revenues and earnings in 2016 from 2015 levels, the reduced activity levels and the decline in revenue and earnings in the Pipeline and Pipe Services segment of the Company's business and the timing of recovery in respect thereof, the growth in revenue and earnings in the Petrochemical and Industrial segment of the Company's business, the sufficiency of resources, capacity and capital to meet market demand, to meet contractual obligations, to continue to comply with its debt covenants and to execute the Company's development and growth strategy, the sufficiency of the Company's human resources, systems and processes to operate its business and execute its strategic plan, the impact of the existing order backlog and other factors on the Company's revenue and Operating Income in 2016, the impact of global economic activity on the demand for the Company's products, the impact of the decline in global oil and gas commodity prices on the level of industry investment in oil and gas infrastructure, 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 adequacy of the Company's existing accruals in respect of taxes, environmental compliance and in respect of litigation matters and other claims generally, the level of payments under the Company's performance bonds, the outcome of the Company's outstanding bids 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: the impact on the Company of reduced demand for its products and services, including the suspension or cancellation of existing contracts, as a result of lower investment in global oil and gas extraction and transportation activity following the declines in the global price of oil and gas and as a result of delays in obtaining regulatory approvals; long term changes in global or regional economic activity and changes in energy supply and demand, which impact on the level of global pipeline infrastructure 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 herein under the heading "Risks and Uncertainties."

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 global oil and gas prices, declines in expenditures on oil and gas infrastructures, modest global economic growth, the Company's ability to execute projects under contract, the Company's success in existing and future contract bids, 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.

To the extent any forward looking information in this document constitutes future oriented financial information or financial outlooks, within the meaning of securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. Future oriented financial information and financial outlooks, as with forward looking information generally, are based on the assumptions and subject to the risks noted above.

### **13.0 Additional Information**

Additional information relating to the Company, including its Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

August 10, 2016