



**INTERIM REPORT  
TO SHAREHOLDERS**

**SIX MONTHS ENDED  
JUNE 30, 2017**

## Selected Financial Summary

(in thousands of Canadian dollars except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Operating Results</b>				
Revenue	\$ 383,782	\$ 255,359	\$ 743,514	\$ 620,938
Adjusted EBITDA <sup>(a)</sup>	53,340	(20,298)	96,236	16,332
Income (Loss) from operations	28,234	(40,792)	54,044	(24,842)
Net income (Loss) <sup>(b)</sup>	\$ 16,064	\$ (41,678)	\$ 31,196	\$ (34,217)
Earnings (Loss) per share				
Basic	\$ 0.23	\$ (0.65)	\$ 0.45	\$ (0.53)
Diluted	\$ 0.23	\$ (0.65)	\$ 0.45	\$ (0.53)
<b>Cash Flow</b>				
Cash provided by operating activities	\$ 41,058	\$ (31,724)	\$ 16,396	\$ 54,028
Additions to property, plant and equipment	(14,794)	(15,434)	(24,277)	(33,395)
The following is the calculation of EBITDA & Adjusted EBITDA <sup>(a)</sup>				
<b>Net Income</b>	\$ 15,972	\$ (41,715)	\$ 30,948	\$ (33,560)
Add (deduct):				
Income taxes	6,860	(5,826)	9,370	(3,228)
Finance costs, net	4,783	3,973	10,411	8,717
Amortization of property, plant, equipment and intangible assets	26,036	20,291	45,818	41,424
<b>EBITDA</b>	\$ 53,651	\$ (23,277)	\$ 96,547	\$ 13,353
Gain on sale of land	(311)	(511)	(311)	(511)
Cost associated with repayment and modification of long-term debt	–	2,061	–	2,061
Impairment	–	1,429	–	1,429
<b>ADJUSTED EBITDA</b>	\$ 53,340	\$ (20,298)	\$ 96,236	\$ 16,332
			June 30, 2017	December 31, 2016
<b>Financial Position</b>				
Working capital			\$ 315,256	\$ 279,986
Total assets			\$ 1,744,495	\$ 1,777,791
Equity per share <sup>(c)</sup>			\$ 14.96	\$ 14.92

(a) Earnings before interest, income taxes, depreciation and amortization ("EBITDA") is a non-GAAP measure, calculated by adding back to net income (loss) 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. Adjusted EBITDA is a non-GAAP measure calculated by adding back to net income (loss) the sum of net finance costs, income taxes, amortization of property, plant, equipment and intangible assets and gains from sale of land. EBITDA and Adjusted EBITDA do not have standardized meanings prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. EBITDA and Adjusted EBITDA are used by many analysts in the oil and gas industry as one of several important analytical tools. These measures are also considered important by lenders to the Company. They 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. Refer to Section 10.0 – Reconciliation of non-GAAP Measures of Management's Discussion and Analysis Report for additional information with respect to other non-GAAP measures used by the Company.

(b) Attributable to shareholders of the Company.

(c) Equity per share is a non-GAAP measure calculated by dividing equity by the number of shares outstanding at the date of the balance sheet.

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 and service facilities located around the world. The Company is publicly-traded on the Toronto Stock Exchange.

## SECOND QUARTER 2017 RESULTS

### Revenue

Consolidated revenue increased by \$128.4 million, or 50%, from \$255.4 million during the second quarter of 2016, to \$383.8 million during the second quarter of 2017, primarily due to a \$127.9 million revenue increase in the Pipeline and Pipe Services segment.

Consolidated revenue increased by \$122.6 million, or 20%, from \$620.9 million for the six month period ended June 30, 2016 to \$743.5 million for the six month period ended June 30, 2017, due to increases of \$120.0 million, or 23%, in the Pipeline and Pipe Services segment and \$2.8 million, or 3%, in the Petrochemical and Industrial segment.

### Income (Loss) from Operations

Operating income increased by \$69.0 million, from an operating loss of \$40.8 million in the second quarter of 2016 to an operating income of \$28.2 million during the second quarter of 2017. Operating income was positively impacted by an increase in gross profit of \$73.2 million, a reduction of \$2.5 million in research and development expenses and a \$1.4 million decrease in impairment charges. This was partially offset by increases in amortization of property, plant, equipment and intangible assets of \$5.7 million and in net foreign exchange losses of \$2.4 million.

Operating income increased by \$78.9 million, from an Operating loss of \$24.8 million in the six month period ended June 30, 2016, to an operating income of \$54.0 million in the six month period ended June 30, 2017. Operating income was positively impacted by a year over year increase in gross profit of \$75.9 million and decreases in SG&A expenses of \$5.1 million, in research and development expenses of \$3.2 million and in impairment charges of \$1.4 million. These items were partially offset by increases in amortization of property, plant, equipment and intangible assets of \$4.4 million and in net foreign exchange losses of \$2.1 million.

### Net Income (Loss)

Net income increased by \$57.7 million, from a \$41.7 million net loss during the second quarter of 2016 to a \$16.1 million net income during the second quarter of 2017. This was mainly due to the \$69.0 million increase in operating income and \$2.1 million of costs associated with repayment and modification of long term debt recorded in the second quarter of 2016. This was partially offset by a \$12.7 million increase in income tax expense.

Net income increased by \$65.4 million, from a \$34.2 million net loss during the six-month period ended June 30, 2016 to a net income of \$31.2 million during the six-month period ended June 30, 2017, mainly due to the \$78.9 million increase in operating income and \$2.1 million of costs associated with repayment and modification of long term debt recorded in the second quarter of 2016. This was partially offset by a \$12.6 million increase in income tax expense, a \$2.1 million higher loss from investments in associates and a \$1.7 million increase in finance costs.

### 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, 2017 of \$572 million was lower than the order backlog of \$648 million at March 31, 2017. The decrease reflects revenue generated in the quarter from backlog orders, which includes the Sur de Texas – Tuxpan project, partially offset by new orders and the PTT – Fifth Transmission project and other project wins moving from bid into backlog. Based on the current order backlog, projected continued activity levels in North America and improved plant utilization, the Company expects to deliver EBITDA at near the current level for the remainder of 2017.

In addition to the backlog, the Company closely monitors its bidding activity and the value of outstanding firm bids is currently in excess of \$500 million. In addition, the Company has provided budgetary estimates and is currently working with customers on projects with aggregate values of approximately \$1.6 billion. Although the Company cannot be certain on the timing of these projects, they do represent a diverse portfolio of opportunities to sustain and grow the backlog in 2017 and beyond.

# 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, 2017 and 2016 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 2016 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") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting, 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 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, 2017, 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 87% of consolidated revenue for the six months ended June 30, 2017. This segment includes the Bredero Shaw, Canusa-CPS, Flexpipe Systems, Guardian, Shaw Pipeline Services, Shawcor Inspection Services (formerly "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.
- 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.

- 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.
- Shawcor Inspection Services (formerly “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 13% of consolidated revenue for the six months ended June 30, 2017. 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.

- 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**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
(in thousands of Canadian dollars)				
<b>Revenue</b>	<b>\$ 383,782</b>	\$ 255,359	<b>\$ 743,514</b>	\$ 620,938
<b>Cost of Goods Sold and Services Rendered</b>	<b>239,735</b>	184,489	<b>469,806</b>	423,133
	<b>144,047</b>	70,870	<b>273,708</b>	197,805
Selling, general and administrative expenses	<b>85,670</b>	86,005	<b>164,697</b>	169,836
Research and development expenses	<b>2,254</b>	4,722	<b>5,872</b>	9,030
Foreign exchange losses (gains)	<b>2,164</b>	(274)	<b>3,588</b>	1,439
Amortization of property, plant and equipment	<b>20,904</b>	14,253	<b>35,648</b>	29,082
Amortization of intangible assets	<b>5,132</b>	6,038	<b>10,170</b>	12,342
Gain on sale of land	<b>(311)</b>	(511)	<b>(311)</b>	(511)
Impairment	–	1,429	–	1,429
<b>Income (Loss) from Operations</b>	<b>28,234</b>	(40,792)	<b>54,044</b>	(24,842)
Loss from investments in associates	<b>(619)</b>	(715)	<b>(3,315)</b>	(1,168)
Finance costs, net	<b>(4,783)</b>	(3,973)	<b>(10,411)</b>	(8,717)
Costs associated with repayment and modification of long-term debt	–	(2,061)	–	(2,061)
<b>Income (Loss) before Income Taxes</b>	<b>22,832</b>	(47,541)	<b>40,318</b>	(36,788)
Income tax expense (recovery)	<b>6,860</b>	(5,826)	<b>9,370</b>	(3,228)
<b>Net Income (Loss)</b>	<b>\$ 15,972</b>	\$ (41,715)	<b>\$ 30,948</b>	\$ (33,560)
<b>Net Income (Loss) attributable to:</b>				
Shareholders of the Company	<b>\$ 16,064</b>	\$ (41,678)	<b>\$ 31,196</b>	\$ (34,217)
Non-controlling interests	<b>(92)</b>	(37)	<b>(248)</b>	657
<b>Net Income (Loss)</b>	<b>\$ 15,972</b>	\$ (41,715)	<b>\$ 30,948</b>	\$ (33,560)
<b>Per Share Information:</b>				
<b>Earnings (Loss) per Share</b>				
Basic	<b>\$ 0.23</b>	\$ (0.65)	<b>\$ 0.45</b>	\$ (0.53)
Diluted	<b>\$ 0.23</b>	\$ (0.65)	<b>\$ 0.45</b>	\$ (0.53)
<b>Cash Dividend per Share:</b>				
Common Shares	<b>\$ 0.15</b>	\$ 0.15	<b>\$ 0.30</b>	\$ 0.30

(in thousands of Canadian dollars)	<b>June 30, 2017</b>	December 31, 2016
<b>Total Assets</b>	<b>\$ 1,744,495</b>	\$ 1,777,791
<b>Total Non-Current Liabilities</b>	<b>\$ 331,364</b>	\$ 339,298

## 2.2 EBITDA

(in thousands of Canadian dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Net Income (Loss)</b>	<b>\$ 15,972</b>	\$ (41,715)	<b>\$ 30,948</b>	\$ (33,560)
<b>Add:</b>				
Income tax expense (recovery)	<b>6,860</b>	(5,826)	<b>9,370</b>	(3,228)
Finance costs, net	<b>4,783</b>	3,973	<b>10,411</b>	8,717
Amortization of property, plant, equipment and intangible assets	<b>26,036</b>	20,291	<b>45,818</b>	41,424
<b>EBITDA<sup>(a)</sup></b>	<b>\$ 53,651</b>	\$ (23,277)	<b>\$ 96,547</b>	\$ 13,353

(a) Earnings before interest, income taxes, depreciation and amortization ("EBITDA") is a non-GAAP measure, calculated by adding back to net income (loss) the sum of income taxes, net finance costs, 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. EBITDA should not be considered in isolation or used as an alternative to net income (loss) 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,	
	2017	2016	2017	2016
U.S. dollar	<b>1.3360</b>	1.2916	<b>1.3308</b>	1.3304
Euro	<b>1.4766</b>	1.4484	<b>1.4479</b>	1.4748
British Pounds	<b>1.7148</b>	1.8339	<b>1.6858</b>	1.8972

The following table sets forth the impact on revenue, operating income and net income (attributable to shareholders of the Company), compared with the prior quarter and the prior year period, as a result of foreign exchange fluctuations on the translation of foreign currency operations:

(in thousands of Canadian dollars)	<b>Q2-2017 Versus Q1-2017</b>	<b>Q2-2017 versus Q2-2016</b>	<b>Q2-2017 YTD versus Q2-2016 YTD</b>
Revenue	<b>\$ 10,747</b>	<b>\$ 3,222</b>	<b>\$ (17,062)</b>
Operating income	<b>\$ 2,562</b>	<b>\$ 84</b>	<b>\$ (2,623)</b>
Net income	<b>\$ 2,067</b>	<b>\$ (325)</b>	<b>\$ (2,311)</b>

In addition to the translation impact noted above, the Company recorded a foreign exchange loss of \$2.2 million in the second quarter of 2017 (six months ended June 30, 2017 – loss of \$3.6 million), compared to a gain of \$0.3 million for the comparable period in the prior year (six months ended June 30, 2016 – a loss of \$1.4 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.

## 3.0 Business Developments

### *Contract to Provide Pipe Coating Services for Thailand's Fifth Transmission Pipeline Project*

On April 7, 2017, the Company announced that its pipe coating division had received a contract in excess of \$40 million from Marubeni-Itochu Tubulars Asia Pte Ltd, a 100% subsidiary of Marubeni-Itochu Steel Inc., to provide internal lining and three layer polyethylene anti-corrosion pipeline coatings for Thailand's Fifth Transmission Pipeline project.

This project is owned by PTT Public Company Limited, a Thai state enterprise company. The pipeline will run through 8 provinces in Thailand and is aimed at reducing risks to electrical power security and easing the delivery of gas from the LNG Terminal in Rayong, Thailand to the Western region.

This contract will be executed in Shawcor's coating facilities in Malaysia, and is expected to commence in the fourth quarter of 2017 and to be completed by the fourth quarter of 2018.

## 4.0 Results from Operations

### 4.1 Consolidated Information

#### Revenue

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

	Three Months Ended			Six Months Ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
(in thousands of Canadian dollars)					
Pipeline and Pipe Services	\$ 334,913	\$ 309,034	\$ 206,990	\$ 643,947	\$ 523,970
Petrochemical and Industrial Elimination <sup>(a)</sup>	49,078 (209)	51,367 (669)	48,818 (449)	100,445 (878)	97,691 (723)
Consolidated revenue	\$ 383,782	\$ 359,732	\$ 255,359	\$ 743,514	\$ 620,938

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

#### Second Quarter 2017 versus First Quarter 2017

Consolidated revenue increased 7%, or \$24.1 million, from \$359.7 million during the first quarter of 2017 to \$383.8 million during the second quarter of 2017, due to an increase of \$25.9 million in the Pipeline and Pipe Services segment, partially offset by a decrease of \$2.3 million in the Petrochemical and Industrial segment.

Revenue increased by 8% in the Pipeline and Pipe Services segment, or \$25.9 million, from \$309.0 million in the first quarter of 2017 to \$334.9 million in the second quarter of 2017, due to higher activity levels in Latin America and North America, partially offset by lower volumes in the Europe, Middle East, Africa and Russia ("EMAR") and Asia Pacific 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 lower by \$2.3 million, or 4%, in the second quarter of 2017, compared to the first quarter of 2017, due to lower activity levels in North America and Asia Pacific, partially offset by higher revenue in Latin America. 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 2017 versus Second Quarter 2016

Consolidated revenue increased by \$128.4 million, or 50%, from \$255.4 million during the second quarter of 2016, to \$383.8 million during the second quarter of 2017, primarily due to a \$127.9 million revenue increase in the Pipeline and Pipe Services segment.

In the Pipeline and Pipe Services segment, revenue in the second quarter of 2017 was \$334.9 million, or 62% higher than in the second quarter of 2016, due to increased activity levels in North America, Latin America and Asia Pacific, partially offset by lower revenue levels in EMAR. 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 essentially flat at \$49.1 million during the second quarter of 2017, compared to \$48.8 million in the second quarter of 2016, due to increased activity levels in EMAR and Asia Pacific being mostly offset by lower revenue levels in North America. 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, 2017 versus Six Months Ended June 30, 2016

Consolidated revenue increased by \$122.6 million, or 20%, from \$620.9 million for the six month period ended June 30, 2016 to \$743.5 million for the six month period ended June 30, 2017, due to increases of \$120.0 million, or 23%, in the Pipeline and Pipe Services segment and \$2.8 million, or 3%, in the Petrochemical and Industrial segment.

Revenue for the Pipeline and Pipe Services segment during the first half of 2017 was \$643.9 million, or \$120.0 million higher than in the comparable period in 2016, due to higher activity levels in Latin America, Asia Pacific and North America, partially offset by lower revenue in the EMAR region. 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 \$2.8 million in the first half of 2017 compared to the same period in 2016, 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.

### Income from Operations (“Operating Income”)

The following table sets forth operating income and operating margin for the following periods:

(in thousands of Canadian dollars, except percentages)	Three Months Ended			Six Months Ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Operating income (loss)	\$ 28,234	\$ 25,810	\$ (40,792)	\$ 54,044	\$ (24,842)
Operating margin <sup>(a)</sup>	7.4%	7.2%	(16.0%)	7.3%	(4.0%)

(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 2017 versus First Quarter 2017

Operating income increased by \$2.4 million, from an operating income of \$25.8 million during the first quarter of 2017 to operating income of \$28.2 million in the second quarter of 2017. Operating income was positively impacted by an increase in gross profit of \$14.4 million, a \$1.4 million decrease in research and development expenses and a \$0.3 million gain on sale of land. This was partially offset by increases in selling, general and administrative (“SG&A”) expenses of \$6.6 million, in amortization of property, plant, equipment and intangible assets of \$6.3 million and in net foreign exchange losses of \$0.7 million.

The increase in gross profit resulted from the higher revenue, as explained above, and a 1.5 percentage point increase in the gross margin from the first quarter of 2017. The increase in the gross margin percentage was primarily due to product and project mix, higher facility utilization and increased absorption of manufacturing overheads.

SG&A expenses increased by \$6.6 million, from \$79.0 million in the first quarter of 2017 to \$85.7 million in the second quarter of 2017, primarily due to a net increase in personnel related and management incentive compensation expenses, including an increase in government mandated employee profit sharing on large project activity in Latin America.

#### Second Quarter 2017 versus Second Quarter 2016

Operating income increased by \$69.0 million, from an operating loss of \$40.8 million in the second quarter of 2016 to an operating income of \$28.2 million during the second quarter of 2017. Operating income was positively impacted by an increase in gross profit of \$73.2 million, a reduction of \$2.5 million in research and development expenses and a \$1.4 million decrease in impairment charges. This was partially offset by increases in amortization of property, plant, equipment and intangible assets of \$5.7 million and in net foreign exchange losses of \$2.4 million.

The increase in gross profit resulted from the higher revenue, as explained above, and a 9.8 percentage point increase in the gross margin from the second quarter of 2016. The increase in the gross margin percentage was primarily due to higher large project activity, improved North America business activity, higher facility utilization and increased absorption of manufacturing overheads.

SG&A expenses in the second quarter of 2017 decreased by \$0.3 million compared to the second quarter of 2016, primarily due to a \$14.3 million increase in personnel related and management incentive compensation expenses, including an increase in government mandated employee profit sharing on large project activity in Latin America, partially offset by a decrease of \$1.3 million in professional fees, a \$1.7 million decrease in rental and building costs and lower expenses in various other categories. The second quarter of 2016 also included \$9.8 million in higher restructuring costs, including \$6.0 million for employee severance and \$3.8 million for plant and office closure and co-location costs.

#### Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016

Operating income increased by \$78.9 million, from an Operating loss of \$24.8 million in the six month period ended June 30, 2016, to an operating income of \$54.0 million in the six month period ended June 30, 2017. Operating income was positively impacted by a year over year increase in gross profit of \$75.9 million and decreases in SG&A expenses of \$5.1 million, in research and development expenses of \$3.2 million and in impairment charges of \$1.4 million. These items were partially offset by increases in amortization of property, plant, equipment and intangible assets of \$4.4 million and in net foreign exchange losses of \$2.1 million.



The increase in gross profit resulted from the higher revenue, as explained above, and a 5.0 percentage point increase in the gross margin from the prior year. The increase in the gross margin percentage was primarily due to higher large project activity, improved North America business activity, higher facility utilization and increased absorption of manufacturing overheads.

SG&A expenses decreased by \$5.1 million in the first six months of 2017 compared to the comparable period in 2016, primarily due to a net reduction in restructuring charges of \$9.8 million compared to the first six months of 2016, a decrease in rental and building costs of \$4.1 million and a \$3.1 million decrease in professional consulting and legal fees. This was partially offset by an increase in personnel related and management incentive compensation expenses of \$12.6 million, including an increase in government mandated employee profit sharing on large project activity in Latin America.

## Finance Costs, Net

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

	Three Months Ended			Six Months Ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
(in thousands of Canadian dollars)					
Interest income	\$ (733)	\$ (234)	\$ (183)	\$ (967)	\$ (499)
Interest expense, other	1,372	1,592	1,418	2,964	2,332
Interest expense on long-term debt	4,144	4,270	2,738	8,414	6,884
Finance costs, net	\$ 4,783	\$ 5,628	\$ 3,973	\$ 10,411	\$ 8,717

### Second Quarter 2017 versus First Quarter 2017

In the second quarter of 2017, net finance costs were \$4.8 million, compared to net finance costs of \$5.6 million during the first quarter of 2017. The decrease in net finance costs was primarily due to a \$0.5 million increase in interest income and a \$0.3 million decrease in interest expense on bank borrowings and facilities.

### Second Quarter 2017 versus Second Quarter 2016

In the second quarter of 2017, net finance costs were \$4.8 million, compared to net finance costs of \$4.0 million during the second quarter of 2016. The increase in net finance costs was primarily a result of higher interest expense on long term debt, partially offset by higher interest income.

### Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016

For the six months ended June 30, 2017, net finance costs were \$10.4 million, compared to \$8.7 million in the comparable period in the prior year. The increase in net finance costs was primarily a result of higher interest expense on long term debt and higher interest expense on bank borrowings and facilities, partially offset by higher interest income.

## Income Taxes

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

	Three Months Ended			Six Months Ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
(in thousands of Canadian dollars)					
Income tax expense (recovery)	\$ 6,860	\$ 2,510	\$ (5,826)	\$ 9,370	\$ (3,228)

### Second Quarter 2017 versus First Quarter 2017

The Company recorded an income tax expense of \$6.9 million (30% of income before income taxes) in the second quarter of 2017, compared to an income tax expense of \$2.5 million (14% of income before income taxes) in the first quarter of 2017. The effective tax rate in the second quarter of 2017 was higher than the Company's expected income tax rate of 27% primarily due to a large portion of the Company's taxable income being earned in higher tax jurisdictions.

### Second Quarter 2017 versus Second Quarter 2016

The Company recorded an income tax expense of \$6.9 million (30% of income before income taxes) in the second quarter of 2017, compared to an income tax recovery of \$5.8 million (12% of loss before income taxes) in the second quarter of 2016. The effective tax rate in the second quarter of 2017 was higher than the Company's expected income tax rate of 27% primarily due to a large portion of the Company's taxable income being earned in higher tax jurisdictions.

## Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016

The Company recorded an income tax expense of \$9.4 million (23% of income before income taxes) during the six-month period ended June 30, 2017, compared to an income tax recovery of \$3.2 million (9% of loss before income taxes) during the six-month period ended June 30, 2016. The effective tax rate for the six month period ended June 30, 2017 was lower than the Company's expected effective income tax rate of 27%, primarily due to a large portion of the Company's taxable income being earned in lower tax jurisdictions.

## **4.2 Segment Information**

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

The following table sets forth, by geographic location, the revenue, operating income and operating margin for the Pipeline and Pipe Services segment for the following periods:

(in thousands of Canadian dollars, except percentages)	Three Months Ended			Six Months Ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
North America	\$ 155,425	\$ 146,856	\$ 99,359	\$ 302,281	\$ 237,126
Latin America	99,559	29,115	8,392	128,674	36,539
EMAR	49,059	62,404	89,802	111,463	218,316
Asia Pacific	30,870	70,659	9,437	101,529	31,989
<b>Total revenue</b>	<b>\$ 334,913</b>	<b>\$ 309,034</b>	<b>\$ 206,990</b>	<b>\$ 643,947</b>	<b>\$ 523,970</b>
<b>Operating income (loss)</b>	<b>\$ 27,182</b>	<b>\$ 24,610</b>	<b>\$ (42,572)</b>	<b>\$ 51,792</b>	<b>\$ (26,379)</b>
<b>Operating margin<sup>(a)</sup></b>	<b>8.1%</b>	<b>8.0%</b>	<b>(20.6%)</b>	<b>8.0%</b>	<b>(5.0%)</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 2017 versus First Quarter 2017

Revenue in the second quarter of 2017 increased by \$25.9 million to \$334.9 million, from \$309.0 million in the first quarter of 2017. Revenue benefitted from the impact on translation of foreign operations, as noted in section 2.3 above, and higher activity levels in Latin America and North America, partially offset by lower volumes in EMAR and Asia Pacific:

- Revenue in North America increased by \$8.6 million, or 6%, primarily as a result of higher large diameter pipe coatings in the US and Canada and increased integrity management services revenue. This was partially offset by lower activity levels for flexible composite pipe, tubular management services and small diameter coating revenue in Canada.
- In Latin America, revenue increased by \$70.4 million, or 242%, primarily as a result of the ramp up of production in Altamira, Mexico for the Tuxpan project, partially offset by lower volumes at the Company's Argentina facilities.
- Revenue in EMAR decreased by \$13.3 million, or 21%, primarily due to lower activity levels on the Shah Deniz project in the Caspian and decreased revenue from the Ras Al Khaimah, UAE ("RAK"), Leith, Scotland and the Company's Italian facilities.
- Asia Pacific revenue decreased by \$39.8 million, or 56%, mainly due to lower pipe coating project volumes for the Shah Deniz and Tuxpan projects at the Kabil, Indonesia and Kuantan, Malaysia facilities.

In the second quarter of 2017, operating income was \$27.2 million compared to an operating income of \$24.6 million in the first quarter of 2017, an increase of \$2.6 million. The increase in operating income was primarily due to the \$16.0 million increase in gross profit due to the increase in revenue, as explained above, and a 1.9 percentage point increase in gross margin. The increase in gross margin was due to favourable project mix, higher facility utilization and increased manufacturing overhead absorption. This was partially offset by higher SG&A expenses and an increase in amortization of property, plant, equipment and intangible assets, as explained in section 4.1 above.

### Second Quarter 2017 versus Second Quarter 2016

Revenue in the second quarter of 2017 was \$334.9 million, an increase of \$127.9 million, or 62%, from \$207.0 million in the comparable period of 2016. Segment revenue was positively affected by the impact on translation of foreign operations, as noted in section 2.3 above, and higher activity levels in North America, Latin America and Asia Pacific, partially offset by lower revenue in EMAR:

- In North America, revenue increased by \$56.1 million, or 56%, primarily due to higher volumes of small diameter pipe coating in Canada and large diameter pipe coating in the USA and Canada, increased activity levels in pipe weld inspection services, in tubular management services, increased engineering

services revenue and higher flexible composite pipe sales volumes. This was partially offset by lower activity levels of large diameter pipe coating in Canada.

- Latin America revenue increased by \$91.2 million, or 1086%, primarily as a result of the ramp up of production in Altamira, Mexico for the Tuxpan project, partially offset by lower volumes at the Company's Argentina facilities.
- Revenue in EMAR decreased by \$40.7 million, or 45%, primarily due to lower activity levels on the Shah Deniz project in the Caspian and at the Leith, Scotland, Orkanger, Norway, RAK and Italian facilities.
- Revenue in Asia Pacific increased by \$21.4 million, or 227%, mainly due to higher pipe coating project volumes from the Woodside Greater Western Flank and Tuxpan projects at the Kabil, Indonesia and Kuantan, Malaysia facilities.

In the second quarter of 2017, operating income was \$27.2 million compared to an operating loss of \$42.6 million in the second quarter of 2016, an increase of \$69.8 million. The increase in operating income was primarily due to the \$73.4 million increase in gross profit due to the increase in revenue, as explained above, and a 11.6 percentage point increase in gross margin. The increase in gross margin was due to favourable large project mix, higher facility utilization and increased manufacturing overhead absorption. In addition, research and development expenses were lower during the second quarter of 2017 compared to the prior year and a \$1.4 million impairment charge was recorded in the second quarter of 2016. This was partially offset by increases in amortization of property, plant, equipment and intangible assets and net foreign exchange losses, as explained in *section 4.1* above.

#### Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016

Revenue in the Pipeline and Pipe Services segment for the six month period ended June 30, 2017 was \$643.9 million, an increase of \$120.0 million, from \$524.0 million in the comparable period in the prior year. Segment revenue was adversely affected by the impact on translation of foreign operations from the weakening Canadian dollar, as noted in *section 2.3* above, and by higher activity levels in Latin America, North America and Asia Pacific, partially offset by lower revenue in EMAR:

- Revenue in North America increased by \$65.2 million, or 27%, primarily due to increased revenue from flexible composite pipe sales, tubular management services, pipe weld inspection services and small diameter pipe coating in Canada. This was partially offset by lower activity levels of large diameter pipe coating activity in the USA and Canada and lower volumes of small diameter pipe coating in the USA.
- In Latin America, revenue was higher by \$92.1 million, or 252%, mainly due to the ramp up of production in Altamira, Mexico for the Tuxpan project, partially offset by lower volumes at the Company's Argentina facilities.
- In EMAR, revenue decreased by \$106.9 million, or 49%, primarily due to decreased pipe coating activity levels in RAK, Orkanger, Norway and Leith, Scotland, on the Shah Deniz project in the Caspian and at the Company's Italian facilities.
- Revenue in Asia Pacific increased by \$69.5 million, or 217%, mainly due to higher pipe coating project volumes from the Woodside Greater Western Flank, Shah Deniz and Tuxpan projects at the Kabil, Indonesia and Kuantan, Malaysia facilities.

Operating income for the six month period ended June 30, 2017 was \$51.8 million compared to an operating loss of \$26.4 million for the six month period ended June 30, 2016, an increase of \$78.2 million. The increase in operating income is primarily due to a \$73.4 million increase in gross profit as a result of the increase in revenue, as explained above, and a 5.4 percentage point increase in gross margin. The increase in gross margin was due to favourable large project mix, higher facility utilization and increased manufacturing overhead absorption. In addition, SG&A expenses and research and development expenses were lower during 2017 compared to the prior year and a \$1.4 million impairment charge was recorded in the second quarter of 2016. This was partially offset by increases in amortization of property, plant, equipment and intangible assets and net foreign exchange losses, as explained in *section 4.1* above.

## 4.2.2 Petrochemical and Industrial Segment

The following table sets forth, by geographic location, the revenue, operating income and operating margin for the Petrochemical and Industrial segment for the following periods:

(in thousands of Canadian dollars, except percentages)	Three Months Ended			Six Months Ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
North America	\$ 28,255	\$ 31,472	\$ 29,837	\$ 59,727	\$ 59,448
EMAR	17,772	16,678	16,277	34,450	32,785
Asia Pacific	3,051	3,217	2,704	6,268	5,458
<b>Total revenue</b>	<b>\$ 49,078</b>	<b>\$ 51,367</b>	<b>\$ 48,818</b>	<b>\$ 100,445</b>	<b>\$ 97,691</b>
<b>Operating income</b>	<b>\$ 7,945</b>	<b>\$ 9,647</b>	<b>\$ 9,751</b>	<b>\$ 17,592</b>	<b>\$ 17,346</b>
<b>Operating margin<sup>(a)</sup></b>	<b>16.2%</b>	<b>18.8%</b>	<b>20.0%</b>	<b>17.5%</b>	<b>17.8%</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 2017 versus First Quarter 2017

In the second quarter of 2017, revenue decreased by \$2.3 million, or 4%, to \$49.1 million, compared to the first quarter of 2017, primarily due to decreased shipments of wire and cable products, partially offset by higher activity levels for heat shrink tubing product, particularly in the automotive sector in the EMAR region.

Operating income of \$7.9 million in the second quarter of 2017 was \$1.7 million, or 18%, lower than in the first quarter of 2017. The decrease in operating income was primarily due to a decrease in gross profit of \$1.6 million due to the decreased revenue, as explained above, and a 1.7 percentage point decrease in gross margin. The decrease in gross margin was due to unfavourable product mix and lower facility utilization and decreased manufacturing overhead absorption.

### Second Quarter 2017 versus Second Quarter 2016

Revenue in the second quarter of 2017 increased by \$0.3 million, or 1%, compared to the second quarter of 2016. Revenue was impacted by increased shipments of heat shrink tubing product, particularly in the automotive sector in the EMAR region, partially offset by lower activity levels for wire and cable products.

Operating income in the second quarter of 2017 was \$7.9 million compared to \$9.8 million in the second quarter of 2016, a decrease of \$1.8 million, or 19%. The decrease in operating income was due to a decrease in gross profit of \$0.2 million due to a 0.6 percentage point decrease in gross margin, and higher SG&A expenses. The decrease in gross margin was due to unfavourable product mix. SG&A expenses were mainly impacted by higher personnel related and management incentive compensation expenses.

### Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016

Revenue increased in the six months ended June 30, 2017 by \$2.8 million, or 3%, to \$100.4 million compared to the comparable period in 2016, due to increased shipments of wire and cable products in North America, combined with increased heat shrinkable product shipments in EMAR and Asia Pacific, partially offset by the impact of foreign exchange on revenue, as noted in section 2.3 above.

Operating income for the six months ended June 30, 2017 was \$17.6 million compared to \$17.3 million for the six months ended June 30, 2016, an increase of \$0.2 million, or 1%. Operating income was higher due to an increase in gross profit of \$2.5 million as a result of the increase in revenue of \$2.8 million, as explained above, and a 1.7 percentage point increase in gross margin, partially offset by higher SG&A expenses. The increase in gross margin was due to favourable product mix, higher facility utilization and increased manufacturing overhead absorption. SG&A expenses were mainly impacted by higher personnel related and management incentive compensation 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 corporate division of Shawcor only earns revenue that is considered incidental to the activities of the Company. As a result, it does not meet the definition of a reportable operating segment as defined in IFRS.

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, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Financial and corporate expenses	\$ (5,039)	\$ (7,024)	\$ (7,327)	\$ (12,063)	\$ (13,452)

#### Second Quarter 2017 versus First Quarter 2017

Financial and corporate costs decreased by \$2.0 million from \$7.0 million during the first quarter of 2017 to \$5.0 million in the second quarter of 2017. The decrease was primarily due to a net decrease of \$2.7 million in personnel related and management compensation expenses and \$0.5 million in higher professional consulting and legal fees.

#### Second Quarter 2017 versus Second Quarter 2016

Financial and corporate costs decreased by \$2.3 million from the second quarter of 2016 to \$5.0 million in the second quarter of 2017. The decrease was primarily due to a net decrease of \$2.3 million in personnel related and management compensation expenses.

#### Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016

Financial and corporate costs decreased by \$1.4 million from the six month period ended June 30, 2016 to \$12.1 million for the six month period ended June 30, 2017. The decrease was primarily due to a \$2.0 million decrease in professional consulting and legal 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,	
	2017	2016	2017	2016
<b>Net Income (Loss) for the Period</b>	\$ 15,972	\$ (41,715)	\$ 30,948	\$ (33,560)
Non-cash items	22,019	24,654	48,707	47,211
Settlement of decommissioning liabilities	(327)	(3)	(483)	(6)
Settlement of other provisions	(987)	(3,553)	(1,560)	(11,292)
Net change in employee future benefits	385	(916)	744	(313)
Net change in non-cash working capital and foreign exchange	3,996	(10,191)	(61,960)	51,988
Cash provided by (used in) operating activities	41,058	(31,724)	16,396	54,028
Cash used in investing activities	(7,035)	(21,796)	(19,780)	(65,194)
Cash used in financing activities	(10,429)	(110,589)	(23,180)	(120,383)
Foreign exchange impact on cash and cash equivalents	(1,282)	1,548	(1,183)	(13,480)
<b>Net Change in Cash and Cash Equivalents</b>	<b>22,312</b>	<b>(162,561)</b>	<b>(27,747)</b>	<b>(145,029)</b>
Cash and cash equivalents at beginning of period	144,765	278,177	194,824	260,645
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 167,077</b>	<b>\$ 115,616</b>	<b>\$ 167,077</b>	<b>\$ 115,616</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 (Used in) Operating Activities

### Second Quarter 2017 versus Second Quarter 2016

Cash provided by operating activities was \$41.1 million in the second quarter of 2017, a net change of \$72.8 million from the cash used in operating activities of \$31.7 million in the second quarter of 2016. The increase in cash provided by operating activities was due to an increase in net income of \$57.7 million, as outlined in section 4.1 above and an increase of \$14.2 million in cash provided by non-cash working capital and foreign exchange. The increase in cash provided by non-cash working capital and foreign exchange reflected net increases in accounts payable and accrued liabilities of \$31.7 million and in taxes payable of \$7.8 million, and decreases in taxes receivable of \$19.6 million, in inventories of \$4.3 million and in prepaid expenses of \$2.6 million. This was partially offset by decreases in accounts receivable of \$27.4 million, in deferred revenue of \$16.2 million and in the movement of foreign currency items of \$8.5 million.

### Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016

Cash provided by operating activities was \$16.4 million during the six month period ended June 30, 2017, a decrease of \$37.6 million from the six month period ended June 30, 2016. The decrease was primarily due to a decrease in cash provided by non-cash working capital and foreign exchange of \$113.9 million, partially offset by a \$64.5 million increase in net income, as outlined in section 4.1 above. The decrease in cash provided by non-cash working capital and foreign exchange reflected net increases in accounts receivable of \$198.7 million, in inventories of \$54.2 million and in prepaid expenses of \$7.5 million. This was partially offset by net increases in accounts payable and accrued liabilities of \$79.9 million, in deferred revenue of \$25.2 million, in other current liabilities of \$13.7 million and in income taxes payable of \$5.6 million, and decreases in the movement of foreign currency items of \$8.2 million and in taxes receivable of \$13.9 million.

## 5.2 Cash Used in Investing Activities

### Second Quarter 2017 versus Second Quarter 2016

Cash used in investing activities decreased by \$14.8 million, from \$21.8 million in the second quarter of 2016 to \$7.0 million in the second quarter of 2017. This was primarily due to a \$6.8 million decrease in spending on business acquisitions, a decrease of \$6.1 million in other assets and higher proceeds on disposals of property, plant and equipment of \$1.2 million in the second quarter of 2017.

### Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016

Cash used in investing activities decreased by \$45.4 million, from \$65.2 million during the six month period ended June 30, 2016 to \$19.8 million during the six month period ended June 30, 2017. This was mainly due to decreases in spending on business acquisitions of \$32.3 million, in purchases of property, plant and equipment of \$9.1 million and in other assets of \$3.1 million, along with higher proceeds on disposals of property, plant and equipment of \$1.0 million.

## 5.3 Cash Used in Financing Activities

### Second Quarter 2017 versus Second Quarter 2016

Cash used in financing activities decreased by \$100.2 million, from \$110.6 million in the second quarter of 2016 to \$10.4 million in the second quarter of 2017. This was mainly due to the repayment of US\$78.2 million (CDN\$101.8 million) of Senior Notes in the second quarter of 2016.

### Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016

Cash used in financing activities decreased by \$97.2 million, from \$120.4 million during the six month period ended June 30, 2016 to \$23.2 million during the six month period ended June 30, 2017. This was mainly due to the repayment of US\$78.2 million (CDN\$101.8 million) of Senior Notes in the second quarter of 2016, partially offset by a \$2.5 million decrease in bank indebtedness repayment and a \$1.6 million increase in dividends paid during the six month period ended June 2017.

## 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)	June 30, 2017	December 31, 2016	Change
Average trade accounts receivable	\$ 227,443	\$ 182,331	\$ 45,112
DSO <sup>(a)</sup>	53	50	3

(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 the Company.

Average trade accounts receivables increased by \$45.1 million, from \$182.3 million as at December 31, 2016, to \$227.4 million as at June 30, 2017, as a result of increased revenue in the second quarter of 2017 compared with the fourth quarter of 2016.

### Inventory

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

(in thousands of Canadian dollars)	June 30, 2017	December 31, 2016	Change
Inventories	\$ 132,837	\$ 113,485	\$ 19,352

Inventories increased by \$19.4 million, from \$113.5 million as at December 31, 2016, to \$132.8 million as at June 30, 2017, as a result of increases in raw materials and supplies of \$4.7 million, work-in-process of \$5.2 million, finished goods of \$6.0 million and a decrease in inventory obsolescence of \$3.5 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)	June 30, 2017	December 31, 2016	Change
Average accounts payable and accrued liabilities	\$ 208,277	\$ 205,602	\$ 2,675
DPO <sup>(a)</sup>	78	84	(6)

(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 the Company.

Average accounts payable and accrued liabilities increased by \$2.7 million, from \$205.6 million as at December 31, 2016, to \$208 million as at June 30, 2017. DPO decreased by 6 days from 2016 levels, due to changes in the timing of purchases and payments in the second quarter of 2017 compared with the fourth quarter of 2016.

## 5.5 Credit Facilities

(in thousands of Canadian dollars)	June 30, 2017	December 31, 2016
Bank indebtedness	\$ –	\$ 2,463
Standard letters of credit for performance and bid bonds	74,315	90,898
Total utilized credit facilities	74,315	93,361
Total available credit facilities <sup>(a)</sup>	476,100	492,610
<b>Unutilized credit facilities</b>	<b>\$ 401,785</b>	<b>\$ 399,249</b>

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

The Company pays a floating interest rate on its Unsecured Committed Bank Credit Facility (the "Credit Facility") that is a function of the Company's Total Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio. Allowable credit utilization outside of this facility is US\$50 million.

### Debt Covenants

The Company has undertaken to maintain certain covenants in respect of the Unsecured Committed Bank Credit Facility. Specifically, the Company is required to maintain an Interest Coverage Ratio (EBITDA plus rental payments divided by interest expense plus rental payments) of more than 2.50 to 1.00 and Leverage Ratio (Total Debt to EBITDA) of less than 3.00 to 1.00.

For the quarter ended June 30, 2017, the Company was required to be in compliance with the following amendments made in December 2016:

- a) an increase in the maximum Leverage Ratio to 3.25 to 1.00; with EBITDA for the quarter to be calculated by adding the EBITDA for first quarter of 2017 and the EBITDA for the second quarter of 2017 and then multiplying such sum by 2;

- b) an amendment to the method of calculation of the Interest Coverage Ratio/Fixed Charge Ratio such that each of the components of such ratio (EBITDA, interest expense and rental payments) is calculated on a basis similar to the calculation of the Leverage Ratio for such quarters; and
- 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.

The Company was in compliance with the Interest Coverage Ratio and Leverage Ratio as at June 30, 2017.

## 5.6 Long-term Debt

The Senior Notes balance as at June 30, 2017 was \$254.7 million (US\$196.3 million) (December 31, 2016 – \$263.5 million (US\$196.3 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 *section 5.8* below.

In respect of the long-term debt, the Company is required to maintain certain covenants that are consistent with the debt covenants described in *section 5.5 – Credit Facilities*. The Company was in compliance with these covenants as at June 30, 2017.

## 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)	2017	2018	2019	2020	2021	After 2021	Total
Purchase commitments	\$ 78,408	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 78,408
Accounts payable	92,842	-	-	-	-	-	92,842
Deferred purchase consideration	3,851	-	-	-	-	-	3,851
Long-term debt	-	-	-	79,748	-	175,670	255,418
Finance costs on long-term debt	4,568	9,062	9,062	7,276	6,685	20,468	57,121
Obligations under finance leases	677	1,367	1,367	1,367	1,367	9,595	15,740
Operating leases	16,129	16,565	16,806	9,490	6,764	12,022	77,776
<b>Total contractual obligations</b>	<b>\$ 196,475</b>	<b>\$ 26,994</b>	<b>\$ 27,235</b>	<b>\$ 97,881</b>	<b>\$ 14,816</b>	<b>\$ 217,755</b>	<b>\$ 581,156</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 utilizes its credit facilities to support the Company's bonds. The Company had utilized credit facilities of \$74.3 million as at June 30, 2017 (December 31, 2016 – \$90.9 million) for support of its bonds. In addition, as at June 30, 2017, the Company had \$32.3 million of outstanding surety bonds through insurance companies (December 31, 2016 – \$107.2 million).



## 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 that reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions with respect to how market participants would price an asset or liability. These two inputs used to measure fair value fall into the following three different levels of the fair value hierarchy:

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

The hierarchy requires the use of observable market data when available.

The following table presents the fair value of financial assets and liabilities in the fair value hierarchy as at June 30, 2017:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 167,077	\$ 167,077	\$ –	\$ –
Short-term investments	1,834	1,834	–	–
Loans receivable	8,739	–	8,739	–
Derivative financial instruments	5,378	–	5,378	–
Convertible preferred shares	10,000	–	–	10,000
Deposit guarantee	111	–	111	–
	<b>\$ 193,139</b>	<b>\$ 168,911</b>	<b>\$ 14,228</b>	<b>\$ 10,000</b>
<b>Liabilities</b>				
Deferred purchase consideration	\$ 3,851	\$ –	\$ 3,851	\$ –
Derivative financial instruments	2,896	–	2,896	–
Long-term debt	236,595	–	236,595	–
	<b>\$ 243,342</b>	<b>\$ –</b>	<b>\$ 243,342</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.

#### 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, 2017, 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 six-month period then ended by approximately \$27.6 million, \$2.7 million and \$1.8 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 \$60.4 million, \$16.4 million and \$43.9 million, respectively, as at June 30, 2017.

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 forward contracts for speculative purposes. With the exception of the Company's net investment hedge in one of its US dollar based subsidiaries, 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 Company does not apply hedge accounting to account for its foreign exchange forward contracts.

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, 2017:

(in thousands, except weighted average rate amounts)			
Canadian dollars sold for US dollars			
Less than one year		<b>C\$</b>	<b>4,552</b>
Weighted average rate			<b>0.77</b>
US dollars sold for Canadian dollars			
Less than one year		<b>US\$</b>	<b>6,000</b>
Weighted average rate			<b>1.32</b>
US dollars sold for Euros			
Less than one year		<b>US\$</b>	<b>36,911</b>
Weighted average rate			<b>0.91</b>
Euros sold for US dollars			
Less than one year		<b>€</b>	<b>21,989</b>
Weighted average rate			<b>1.11</b>
US dollars sold for British Pounds Sterling			
Less than one year		<b>US\$</b>	<b>2,591</b>
Weighted average rate			<b>0.77</b>
Norwegian Kroners sold for US dollars			
Less than one year		<b>NOK</b>	<b>67,854</b>
Weighted average rate			<b>0.12</b>
Australian dollars sold for US dollars			
Less than one year		<b>AUD</b>	<b>808</b>
Weighted average rate			<b>0.74</b>

As at June 30, 2017, the Company had notional amounts of \$107.5 million of foreign exchange forward contracts outstanding (December 31, 2016 – \$113.7 million) with the fair value of the Company's net gain from all foreign exchange forward contracts totalling \$1.0 million (December 31, 2016 – \$1.1 million net gain).

#### Net Investment Hedge

The long-term debt has 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, 2017, a loss of \$8.9 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, 2017.

### Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at June 30, 2017:

(in thousands of Canadian dollars)	Non-Interest Bearing	Floating Rate	Fixed Interest Rate	Total
<b>Financial assets</b>				
Cash equivalents	\$ -	\$ -	\$ 38,289	\$ 38,289
Short-term investments	-	-	1,834	1,834
Loans receivable	3,905	4,834	-	8,739
Convertible preferred shares	10,000	-	-	10,000
	<b>\$ 13,905</b>	<b>\$ 4,834</b>	<b>\$ 40,123</b>	<b>\$ 58,862</b>
<b>Financial Liabilities</b>				
Standard letters of credit for performance, bid and surety bonds	\$ 73,309	\$ -	\$ -	\$ 73,309
Long-term debt <sup>(a)</sup>	-	-	254,671	254,671
	<b>\$ 73,309</b>	<b>\$ -</b>	<b>\$ 254,671</b>	<b>\$ 327,980</b>

(a) As per the amendments to the Senior Notes Agreement and Credit Facility in December, 2016, during any period when the Company is permitted an increased Leverage Ratio, increased interest rates and standby and other fees are payable to the Senior Notes holders and under the Credit Facility.

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, foreign exchange forward 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 six-month period ended June 30, 2017, there was one customer who generated approximately 14.2% of total consolidated revenue (six-month period ended June 30, 2016 – no customer accounted for more than 10% of total consolidated revenue). As at June 30, 2017, this customer accounted for \$26.2 million or approximately 11.3% of the Company's total trade accounts receivable (as at December 31, 2016 – this customer accounted for \$1.9 million or approximately 1.1%, of the Company's total trade accounts receivable).

### **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. Access to credit facilities is dependent on the Company's compliance with its debt covenants as outlined in *section 5.5 – Credit Facilities*. As at June 30, 2017, the Company had cash and cash equivalents totaling \$167.1 million (December 31, 2016 – \$194.8 million) and had unutilized lines of credit available to use of \$401.8 million (December 31, 2016 – \$399.2 million).

## **Outstanding Share Capital**

As at August 9, 2017, the Company had 69,933,116 common shares outstanding and stock options and share units outstanding to purchase up to 2,312,071 common shares.

## **5.9 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, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **5.10 Transactions with Related Parties**

The Company had no material transactions with related parties in the first half of 2017. 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, 2017, the Company had \$54.8 million of provisions; of this amount \$17.5 million was included in current liabilities and \$37.3 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 obligations 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 is currently 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, 2017, the Company had \$976.9 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, 2017, the Company had \$21.2 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, 2017, the Company had decommissioning liabilities in the amount of \$29.3 million; of this amount \$5.9 million was included in the current provisions account and \$23.3 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 consolidated financial statements.

#### IFRS 9, Financial Instruments

In July 2015, 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 consolidated financial statements.

#### IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which establishes a single comprehensive model for entities to use in accounting for revenue 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. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has progressed through the initial implementation plan steps of scoping and identifying its unique revenue streams. The Company has completed reviews of many significant customer contracts with an in depth focus and analysis on potential areas for revenue recognition changes. The Company has not yet determined the impact of this standard on the 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 consolidated financial statements.

### **New Accounting Standards Adopted**

#### IAS 12, Income Taxes

On January 19, 2016, the IASB issued amendments to IAS 12, *Income Taxes*, relating to the recognition of deferred income tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company's adoption of these amendments did not have a material impact on the interim consolidated financial statements.

## 7.0 Outlook

The Company believes that the decline in global oil and gas activity that followed the decrease in oil and gas prices in the second half of 2014 is past the low point and is in the early stages of recovery. Shawcor's financial performance is closely correlated with oil and gas infrastructure spending and the resultant market demand for the Company's products and services. The continued increase in customer spending has enabled the Company to report quarter over quarter gains in revenue and operating income since the trough of the cycle in the second quarter of 2016. The current level of market demand combined with Shawcor's booked order backlog is expected to enable the Company to deliver strong growth in financial performance in 2017.

If activity levels remain steady in 2018, then strong results are also expected in 2018. However, it is possible that there will be a shortfall in major project activity in 2018, which could lead to a temporary decline in EBITDA before what the Company anticipates will be strong activity levels and superior financial results in 2019 and 2020.

Beyond 2017, the Company's performance will be impacted by three primary elements; North American land drilling and completion activity, overall industry capital spending and large projects.

North American land drilling has shown the most activity momentum with a minimum base level of activity in the number of oil and gas wells being drilled and completed and/or worked over expected to be sustained. The demand for the Company's gathering line pipeline products and services and OCTG tubular services has strengthened from rig counts in Canada and the USA improving over 70% from the prior year. In addition, investments to move increased production volumes in both new and aging transmission infrastructure will support increased demand for the Company's transmission pipeline products and services.

Industry capital spending, supported by the number of Final Investment Decisions (FID) that has already surpassed the total number in 2016, is expected to gradually improve from current levels. It is expected that with recent reduced supplier costs, configuration standardization, and the need to address reservoir depletion, new projects will continue to be sanctioned. Projects with short cycle returns and lower capital investments such as tie-ins, brownfields and step outs will be the first to be actioned, until improved economics and confidence justify larger and longer term investments, such as greenfield developments. Increased project sanctioning will improve the revenue opportunities for the Company's pipeline products and services that are delivered from the Company's global footprint.

There continues to be visibility and movement in certain large projects that are not directly linked to current oil and gas commodity prices. These projects are driven by domestic energy requirements, energy security or market share protection, emission reduction and opportunistic fiscal incentive or regulatory windows. Since these projects are large, complex, and have high execution risk, they will provide material opportunities for the Company's pipeline product and services. Examples of such projects include the Company's Sur de Texas – Tuxpan undersea natural gas pipeline project in Mexico that is currently being executed and the recently awarded PTT 5th Transmission pipeline project in Thailand. These projects are not directly related to new hydrocarbon production and thus the project investment decision is delinked from oil and gas prices. Although tracking of such projects is captured in the Company's bid and budgetary number of \$2.1 billion, there is still uncertainty as to when such projects will proceed and the success of the Company securing the available scope of work.

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

Market demand in Shawcor's North American Pipeline segment businesses is closely tied to well completion activity in North America which drives the 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 expected to fluctuate with changes in global oil and gas prices and the resulting volume of wells drilled and completed. The continued improvement in drilling rig counts in North America since the second quarter of 2016 has resulted in higher revenues for Shawcor's North American Pipeline segment businesses in the second quarter of 2017 compared to the first quarter of 2017 and the second quarter of 2016.

The Company expects that the North American Pipeline and Pipe Services segment will benefit in the future from the build of new pipeline infrastructure in the form of tie-back infrastructure in the Gulf of Mexico and new onshore large diameter transmission lines to support increasing production of shale oil and the export of liquid natural gas to Mexico and internationally. The Company is currently engaged in bidding on a large diameter onshore transmission line project, but this project must overcome a number of regulatory and legal challenges before it can proceed, which may delay the award and commencement of any work.

### Pipeline and Pipe Services Segment – Latin America

With the concrete weight coating operations in Altamira, Mexico on the Sur de Texas – Tuxpan project reaching full production at the end of the second quarter of 2017, the Company expects continued revenue growth in the

Latin America Pipeline segment region from the two mobile plants for the remainder of the year. At June 30, 2017, the Company's order backlog reflects approximately 60% of the concrete weight coating work which remains to be completed on the Sur de Texas – Tuxpan project, the majority of which will be executed in the second half of 2017 with a small portion in 2018.

#### Pipeline and Pipe Services Segment – Europe, Middle East, Africa and Russia (“EMAR”)

Shawcor's EMAR Pipeline segment region remains the region most negatively impacted by the continued deferral of capital spending on new pipeline infrastructure by national and international oil companies. The Company continues to pursue revenue opportunities for girth weld inspection, pipeline joint protection and pipe end preservation on both the Turk Stream and Nord Stream 2 pipelines, although these opportunities are not likely to benefit revenue until 2018 or later.

#### Pipeline and Pipe Services Segment – Asia Pacific

The activity of the Company's Asia Pacific region was negatively impacted in the second quarter of 2017 due to the completion in the first quarter of the flow assurance work for the Shah Deniz project and the anti-corrosion coating for pipe destined for Mexico for the Sur de Texas – Tuxpan project. The region's project activity in the next two quarters will be limited at the current level until the PTT 5th Transmission pipeline project commences later in the year.

#### Petrochemical and Industrial Segment

Shawcor's Petrochemical and Industrial segment businesses continue to deliver solid revenue and earnings based on consistent demand and growth in the North American and European automotive, industrial and nuclear refurbishment markets served by the segment. The growth trend is expected to continue in 2017 and beyond as new capacity for control cable and sealing and insulation products enters production and relieves capacity constraints.

#### 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, 2017 of \$572 million was lower than the order backlog of \$648 million at March 31, 2017. The decrease reflects revenue generated in the quarter from backlog orders, which includes the Sur de Texas – Tuxpan project, partially offset by new orders and the PTT – Fifth Transmission project and other project wins moving from bid into backlog. Based on the current order backlog, projected continued activity levels in North America and improved plant utilization, the Company expects to deliver EBITDA at near the current level for the remainder of 2017.

In addition to the backlog, the Company closely monitors its bidding activity and the value of outstanding firm bids is currently in excess of \$500 million. In addition, the Company has provided budgetary estimates and is currently working with customers on projects with aggregate values of approximately \$1.6 billion. Although the Company cannot be certain on the timing of these projects, they do represent a diverse portfolio of opportunities to sustain and grow the backlog in 2017 and beyond.

Although bid and budgetary activity remains at healthy levels, there is a possible scenario that the Company will experience a gap, with no major large project activity for several quarters in 2018. The Company will have greater visibility on this potential gap later in 2017. Despite this, and assuming that there is no major pull back in current activity levels, the Company expects to deliver solid results in 2018 from steady activity in North America and continued sanctioning of projects. The bid and budgetary figures include several large projects, over \$100 million, which could commence in the second half of 2018. The Company has the proven capabilities and geographic footprint to win and execute these types of projects. Based on this, the Company is optimistic that it would win a sizable portion of these awards and deliver superior results in 2019 and 2020. With increased optimism for the business supported by the strengthening of our base, project visibility and the Company's strong balance sheet, we are moving forward on our growth strategy through both organic and potential inorganic investments.

## **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 2016 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, 2017.



## 9.0 Environmental Matters

As at June 30, 2017, the provisions on the consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were \$29.3 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 \$43.0 million as at June 30, 2017. The current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0.12% and 7.21%. 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)	June 30, 2017
2017	\$ 5,959
2018	1,970
2019	3,015
2020	3,729
2021	4,590
More than five years	23,785
	<b>\$ 43,048</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

The following table sets forth the calculation for the Company's EBITDA and Adjusted EBITDA:

(in thousands of Canadian dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Net income (loss)</b>	<b>\$ 15,972</b>	\$ (41,715)	<b>\$ 30,948</b>	\$ (33,560)
<b>Add:</b>				
Income tax expense (recovery)	6,860	(5,826)	9,370	(3,228)
Finance costs, net	4,783	3,973	10,411	8,717
Amortization of property, plant, equipment and intangible assets	26,036	20,291	45,818	41,424
<b>EBITDA<sup>(a)</sup></b>	<b>\$ 53,651</b>	\$ (23,277)	<b>\$ 96,547</b>	\$ 13,353
Gain on sale of land	(311)	(511)	(311)	(511)
Costs associated with repayment and modification of long-term debt	-	2,061	-	2,061
Impairment	-	1,429	-	1,429
<b>ADJUSTED EBITDA<sup>(a)</sup></b>	<b>\$ 53,340</b>	\$ (20,298)	<b>\$ 96,236</b>	\$ 16,332

(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. The Company believes that EBITDA is a useful supplemental measure 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.

### 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, 2017	December 31, 2016
Revenue for the quarter	\$ 383,782	\$ 329,182
Average trade accounts receivable	\$ 227,443	\$ 182,331
<b>DSO</b>	<b>53</b>	50

#### *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)	June 30, 2017	December 31, 2016
Cost of goods sold and services rendered for the quarter	\$ 239,735	\$ 221,480
Average accounts payable and accrued liabilities	\$ 208,277	\$ 205,602
<b>DPO</b>	<b>78</b>	84

### 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)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
<b>Revenue</b>					
2017	<b>359,732</b>	<b>383,782</b>	-	-	-
2016	365,579	255,359	259,139	329,182	1,209,259
2015	471,940	398,020	485,428	455,260	1,810,648
<b>Income (loss) from operations</b>					
2017	<b>25,810</b>	<b>28,234</b>	-	-	-
2016	15,950	(40,792)	(167,975)	21,697	(171,120)
2015	55,616	(7,078)	55,195	45,696	149,429
<b>Net income (loss)<sup>(a)</sup></b>					
2017	<b>15,132</b>	<b>16,064</b>	-	-	-
2016	7,461	(41,678)	(174,019)	27,276	(180,960)
2015	37,774	(8,538)	38,107	30,901	98,244
<b>Income (loss) from operations per share</b>					
<b>Basic</b>					
2017	<b>0.37</b>	<b>0.40</b>	-	-	-
2016	0.25	(0.63)	(2.60)	0.33	(2.64)
2015	0.86	(0.11)	0.86	0.70	2.31
<b>Diluted</b>					
2017	<b>0.37</b>	<b>0.40</b>	-	-	-
2016	0.25	(0.63)	(2.60)	0.33	(2.64)
2015	0.86	(0.11)	0.86	0.71	2.32
<b>Earnings (loss) per share</b>					
<b>Basic</b>					
2017	<b>0.22</b>	<b>0.23</b>	-	-	-
2016	0.12	(0.65)	(2.69)	0.42	(2.80)
2015	0.59	(0.13)	0.59	0.48	1.52
<b>Diluted</b>					
2017	<b>0.22</b>	<b>0.23</b>	-	-	-
2016	0.12	(0.65)	(2.69)	0.42	(2.80)
2015	0.58	(0.13)	0.59	0.48	1.52

(a) Represents the net income (loss) 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 87% of the Company's consolidated revenue in the three-month period ended June 30, 2017, 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, judgments and uncertainties. These statements may be identified by the use of forward-looking terminology such as "may", "will", "should", "anticipate", "expect", "believe", "predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward looking information in the Outlook section and elsewhere in respect of, among other things, the achievement of key performance objectives, the incurrence of additional capital expenditures as necessary to respond to market demand growth and to facilitate growth in new markets, the increase in investment in net working capital, the timing of major project activity, the expected stability in consolidated revenues and earnings for the balance of 2017 and improvement in future years, the growth in revenue and earnings in the Pipeline and Pipe Services segment and 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 and to execute the Company's development and growth strategy, the impact of the existing order backlog and other factors on the Company's revenue and operating income, the impact of global economic activity on the demand for the Company's products, the impact of the improvement 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 impact of new pipeline infrastructure and of increasing production volumes in existing and new transmission infrastructure, the adequacy of the Company's existing accruals in respect of environmental compliance and in respect of litigation matters and other claims generally, the level of payments under the Company's performance bonds 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 and the delay in the commencement of future projects, whether as a result of lower investment in global oil and gas extraction and transportation activity following declines in the global price of oil and gas, long term changes in global or regional economic and regulatory activity or changes in energy supply and demand, all of 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; and fluctuations in foreign exchange rates.

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, increases in expenditures on natural gas infrastructures, modest global economic growth, the Company's ability to execute projects under contract, the continued supply of and stable pricing for commodities used by the Company, the availability of personnel resources sufficient for the Company to operate its businesses, the maintenance of operations in major oil and gas producing regions, the ability of the Company to continue to satisfy all covenants under its Credit Facilities and the Senior Notes and the Company's continued ability to successfully manage foreign exchange, interest rate, credit and liquidity risks. 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).



**P.G. Robinson**  
Chair



**S.M. Orr**  
President & CEO

August 10, 2017

**SHAWCOR LTD.**  
**INTERIM CONSOLIDATED FINANCIAL INFORMATION**

**Interim Consolidated Statements of Income (Loss) (Unaudited)**

(in thousands of Canadian dollars, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Revenue</b>				
Sale of products	\$ 126,306	\$ 63,677	\$ 252,422	\$ 188,592
Rendering of services	257,476	191,682	491,092	432,346
	<b>383,782</b>	255,359	<b>743,514</b>	620,938
<b>Cost of Goods Sold and Services Rendered</b>	<b>239,735</b>	184,489	<b>469,806</b>	423,133
<b>Gross Profit</b>	<b>144,047</b>	70,870	<b>273,708</b>	197,805
Selling, general and administrative expenses	85,670	86,005	164,697	169,836
Research and development expenses	2,254	4,722	5,872	9,030
Foreign exchange losses (gains)	2,164	(274)	3,588	1,439
Amortization of property, plant and equipment	20,904	14,253	35,648	29,082
Amortization of intangible assets	5,132	6,038	10,170	12,342
Gain on sale of land	(311)	(511)	(311)	(511)
Impairment	-	1,429	-	1,429
<b>Income (Loss) from Operations</b>	<b>28,234</b>	(40,792)	<b>54,044</b>	(24,842)
Loss from investments in associates	(619)	(715)	(3,315)	(1,168)
Finance costs, net (note 8)	(4,783)	(3,973)	(10,411)	(8,717)
Costs associated with repayment and modification of long-term debt	-	(2,061)	-	(2,061)
<b>Income (Loss) before Income Taxes</b>	<b>22,832</b>	(47,541)	<b>40,318</b>	(36,788)
Income tax expense (recovery) (note 9)	6,860	(5,826)	9,370	(3,228)
<b>Net Income (Loss)</b>	<b>\$ 15,972</b>	\$ (41,715)	<b>\$ 30,948</b>	\$ (33,560)
<b>Net Income (Loss) Attributable to:</b>				
Shareholders of the Company	\$ 16,064	\$ (41,678)	\$ 31,196	\$ (34,217)
Non-controlling interests	(92)	(37)	(248)	657
<b>Net Income (Loss)</b>	<b>\$ 15,972</b>	\$ (41,715)	<b>\$ 30,948</b>	\$ (33,560)
<b>Earnings (Loss) per Share ("EPS") (note 10)</b>				
Basic	\$ 0.23	\$ (0.65)	\$ 0.45	\$ (0.53)
Diluted	\$ 0.23	\$ (0.65)	\$ 0.45	\$ (0.53)
<b>Weighted Average Number of Shares Outstanding ('000's) (note 10)</b>				
Basic	69,932	64,589	69,916	64,560
Diluted	70,033	64,589	70,024	64,560

**SHAWCOR LTD.**  
**INTERIM CONSOLIDATED FINANCIAL INFORMATION**

**Interim Consolidated Statements of Comprehensive Income (Loss) (Unaudited)**

(in thousands of Canadian dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Net Income (Loss) for the Period</b>	<b>\$ 15,972</b>	<b>\$ (41,715)</b>	<b>\$ 30,948</b>	<b>\$ (33,560)</b>
<b>Other Comprehensive Loss to be Reclassified to Net Income (Loss) in Subsequent Periods</b>				
Exchange losses on translation of foreign operations	(7,416)	(9,914)	(9,992)	(49,302)
Cash flow hedge gains reclassified to net income	-	1,536	-	1,536
Other comprehensive loss attributable to investments in associates	(84)	(66)	(182)	(978)
<b>Net Other Comprehensive Loss to be Reclassified to Net Income (Loss) in Subsequent Periods</b>	<b>(7,500)</b>	<b>(8,444)</b>	<b>(10,174)</b>	<b>(48,744)</b>
<b>Other Comprehensive Loss not to be Reclassified to Net Income (Loss) in Subsequent Periods</b>				
Actuarial loss on defined benefit plan	(10)	(9,697)	(13)	(9,697)
Income tax recovery	2	2,606	3	2,606
<b>Net Other Comprehensive Loss not to be Reclassified to Net Income (Loss) in Subsequent Periods</b>	<b>(8)</b>	<b>(7,091)</b>	<b>(10)</b>	<b>(7,091)</b>
<b>Other Comprehensive Loss, Net of Income Tax</b>	<b>(7,508)</b>	<b>(15,535)</b>	<b>(10,184)</b>	<b>(55,835)</b>
<b>Total Comprehensive Income (Loss)</b>	<b>\$ 8,464</b>	<b>\$ (57,250)</b>	<b>\$ 20,764</b>	<b>\$ (89,395)</b>
<b>Comprehensive Income (Loss) Attributable to:</b>				
Shareholders of the Company	\$ 8,203	\$ (56,881)	\$ 20,592	\$ (89,177)
Non-controlling interests	261	(369)	172	(218)
<b>Total Comprehensive Income (Loss)</b>	<b>\$ 8,464</b>	<b>\$ (57,250)</b>	<b>\$ 20,764</b>	<b>\$ (89,395)</b>

**SHAWCOR LTD.**  
**INTERIM CONSOLIDATED FINANCIAL INFORMATION**

**Interim Consolidated Balance Sheets (Unaudited)**

(in thousands of Canadian dollars)	June 30, 2017	December 31, 2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 11)	\$ 167,077	\$ 194,824
Short-term investments	1,834	1,890
Loans receivable (note 12)	3,825	3,832
Accounts receivable	327,102	294,397
Income taxes receivable	17,643	35,141
Inventories	132,837	113,485
Prepaid expenses	26,437	22,477
Derivative financial instruments (note 4)	5,378	9,393
<b>Total current assets</b>	<b>682,133</b>	<b>675,439</b>
<b>Non-current assets</b>		
Loans receivable (note 12)	4,914	5,058
Property, plant and equipment	455,450	471,468
Intangible assets	178,278	192,907
Investments in associates	23,242	26,739
Deferred income tax assets	31,747	28,955
Other assets	25,552	26,407
Goodwill	343,179	350,818
<b>Total non-current assets</b>	<b>1,062,362</b>	<b>1,102,352</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,744,495</b>	<b>\$ 1,777,791</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 13)	\$ –	\$ 2,463
Accounts payable and accrued liabilities	194,752	212,539
Provisions	17,474	21,104
Income taxes payable	39,500	39,011
Derivative financial instruments (note 4)	2,896	3,759
Deferred revenue	100,489	103,584
Obligations under finance lease	506	950
Other liabilities	11,260	12,043
<b>Total current liabilities</b>	<b>366,877</b>	<b>395,453</b>
<b>Non-current liabilities</b>		
Long-term debt (note 14)	254,671	263,528
Obligations under finance lease	11,476	11,019
Provisions	37,293	35,304
Employee future benefits	21,219	20,727
Deferred income tax liabilities	5,721	7,484
Other liabilities	984	1,236
<b>Total non-current liabilities</b>	<b>331,364</b>	<b>339,298</b>
<b>Total liabilities</b>	<b>698,241</b>	<b>734,751</b>
<b>Equity</b>		
Share capital (note 16)	704,744	703,316
Contributed surplus	25,365	23,379
Retained earnings	283,277	273,045
Non-controlling interests	6,064	5,892
Accumulated other comprehensive income	26,804	37,408
<b>Total equity</b>	<b>1,046,254</b>	<b>1,043,040</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 1,744,495</b>	<b>\$ 1,777,791</b>

**SHAWCOR LTD.**  
**INTERIM CONSOLIDATED FINANCIAL INFORMATION**

**Interim Consolidated Statements of Change in Equity (Unaudited)**

(in thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings	Non-controlling Interests	Accumulated Other Comprehensive Income (Loss)	Total Equity
<b>Balance – December 31, 2016</b>	<b>\$ 703,316</b>	<b>\$ 23,379</b>	<b>\$ 273,045</b>	<b>\$ 5,892</b>	<b>\$ 37,408</b>	<b>\$ 1,043,040</b>
Net income	–	–	31,196	(248)	–	30,948
Other comprehensive loss	–	–	–	420	(10,604)	(10,184)
Comprehensive income	–	–	31,196	172	(10,604)	20,764
Issued on exercise of stock options	759	–	–	–	–	759
Compensation cost on exercised stock options	276	(276)	–	–	–	–
Compensation cost on exercised restricted share units	393	(393)	–	–	–	–
Share-based compensation expense	–	2,655	–	–	–	2,655
Dividends declared and paid to shareholders (note 16)	–	–	(20,964)	–	–	(20,964)
<b>Balance – June 30, 2017</b>	<b>704,744</b>	<b>25,365</b>	<b>283,277</b>	<b>6,064</b>	<b>26,804</b>	<b>1,046,254</b>
Balance – December 31, 2015	534,484	18,638	492,713	7,455	71,911	1,125,201
Net loss	–	–	(34,217)	657	–	(33,560)
Other comprehensive loss	–	–	–	(875)	(54,960)	(55,835)
Comprehensive loss	–	–	(34,217)	(218)	(54,960)	(89,395)
Issued on exercise of stock options	1,644	–	–	–	–	1,644
Compensation cost on exercised stock options	541	(541)	–	–	–	–
Compensation cost on exercised restricted share units	178	(178)	–	–	–	–
Share-based compensation expense	–	2,854	–	–	–	2,854
Dividends declared and paid to shareholders (note 16)	–	–	(19,322)	–	–	(19,322)
Balance – June 30, 2016	536,847	20,773	439,174	7,237	16,951	1,020,982



**SHAWCOR LTD.**  
**INTERIM CONSOLIDATED FINANCIAL INFORMATION**

**Interim Consolidated Statements of Cash Flows (Unaudited)**

(in thousands of Canadian dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Operating Activities</b>				
Net income (loss)	\$ 15,972	\$ (41,715)	\$ 30,948	\$ (33,560)
Add (deduct) items not affecting cash				
Amortization of property, plant and equipment	20,904	14,253	35,648	29,082
Amortization of intangible assets	5,132	6,038	10,170	12,342
Amortization of long-term prepaid expenses	729	82	831	197
Impairment	-	1,429	-	1,429
Decommissioning liabilities expenses	133	327	213	368
Other provision expenses	952	6,449	934	8,188
Share-based compensation and incentive-based compensation (note 7)	(615)	2,636	2,199	3,876
(Gain) loss on disposal of property, plant and equipment	(1,109)	599	(1,700)	764
Gain on Sale of Land	(311)	(511)	(311)	(511)
Unrealized (gain) loss on derivative financial instruments	(1,775)	(924)	3,152	1,720
Loss from investments in associates	619	715	3,315	1,168
Deferred income taxes	(1,921)	(5,098)	(5,493)	(10,071)
Other	(719)	(1,341)	(251)	(1,341)
Settlement of decommissioning liabilities	(327)	(3)	(483)	(6)
Settlement of other provisions	(987)	(3,553)	(1,560)	(11,292)
Net change in employee future benefits	385	(916)	744	(313)
Change in non-cash working capital and foreign exchange	3,996	(10,191)	(61,960)	51,988
<b>Cash Provided by (Used in) Operating Activities</b>	<b>41,058</b>	<b>(31,724)</b>	<b>16,396</b>	<b>54,028</b>
<b>Investing Activities</b>				
Decrease (increase) in loans receivable	17	-	(27)	-
Decrease in short-term investments	41	2	56	178
Purchase of property, plant and equipment	(14,794)	(15,434)	(24,277)	(33,395)
Proceeds on disposal of property, plant and equipment	3,521	2,316	4,400	3,362
Decrease (increase) in other assets	4,180	(1,888)	68	(3,008)
Business acquisition, net of cash acquired	-	(6,792)	-	(32,331)
<b>Cash Used in Investing Activities</b>	<b>(7,035)</b>	<b>(21,796)</b>	<b>(19,780)</b>	<b>(65,194)</b>
<b>Financing Activities</b>				
Decrease in bank indebtedness	-	-	(2,463)	-
Decrease in loans payable	-	-	-	(520)
Repayment of long-term debt	-	(101,820)	-	(101,820)
Repayment of obligations under finance lease	(230)	(192)	(512)	(365)
Issuance of shares (note 16)	278	1,112	759	1,644
Dividends paid to shareholders (note 16)	(10,477)	(9,689)	(20,964)	(19,322)
<b>Cash Used in Financing Activities</b>	<b>(10,429)</b>	<b>(110,589)</b>	<b>(23,180)</b>	<b>(120,383)</b>
<b>Effect of Foreign Exchange on Cash and Cash Equivalents</b>	<b>(1,282)</b>	<b>1,548</b>	<b>(1,183)</b>	<b>(13,480)</b>
<b>Net increase (decrease) in Cash and Cash Equivalents</b>	<b>22,312</b>	<b>(162,561)</b>	<b>(27,747)</b>	<b>(145,029)</b>
<b>Cash and Cash Equivalents – Beginning of Period</b>	<b>144,765</b>	<b>278,177</b>	<b>194,824</b>	<b>260,645</b>
<b>Cash and Cash Equivalents – End of Period</b>	<b>\$ 167,077</b>	<b>\$ 115,616</b>	<b>\$ 167,077</b>	<b>\$ 115,616</b>

## Notes to the Interim Consolidated Financial Statements (Unaudited)

Shawcor Ltd. is a publicly listed company incorporated in Canada with its shares listed on the Toronto Stock Exchange. Shawcor Ltd., together with its wholly owned subsidiaries (collectively referred to as the “Company” or “Shawcor”), is a growth oriented, global energy services company serving the Pipeline & Pipe Services and the Petrochemical & Industrial segments of the energy industry. The Company operates eight divisions with over 80 manufacturing and service facilities located around the world. Further information as it pertains to the nature of operations is set out in note 5.

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

Notes to Interim Consolidated Financial Statements	Description
<b>General Application</b>	
1. Basis of Financial Statement Preparation	Summary of financial statement preparation
2. Accounting Standards Issued but Not Yet Applied	Summary of developments in generally accepted accounting principles that will or may affect the Company
3. New Accounting Standards Adopted	Summary of recently adopted generally accepted accounting principles
4. Financial Instruments	Summary of financial instruments, including fair values and the management of associated risks
<b>Consolidated Results of Operations Focused</b>	
5. Segment Information	Summary disclosure of segmented information regularly reported to the Chief Operating Decision-Maker
6. Employee Benefits Expense	Summary of employee benefits expense
7. Share-based and Other Incentive-based Compensation	Summary of compensation arising from share option awards, restricted share units (“RSUs”), deferred share units (“DSUs”) and employee share purchase plan
8. Finance Costs	Summary of items comprising finance costs
9. Income Taxes	Summary of the Company’s income tax rate reconciliation
10. Earnings (Loss) Per Share	Summary of numerators and denominators used in calculating per share amounts
<b>Consolidated Financial Position Focused</b>	
11. Cash and Cash Equivalents	Summary of cash and cash equivalents
12. Loans Receivable	Summary of items comprising loans receivable
13. Credit Facilities	Summary of borrowings and credit facilities
14. Long-term Debt	Summary of long-term debt and related disclosures
15. Commitments and Contingencies	Summary of lease obligations, contingent liabilities, claims and lawsuits
16. Share Capital	Summary of authorized and issued share capital

# Notes to the Interim Consolidated Financial Statements (Unaudited)

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## 1. Basis of Financial Statement Preparation

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and thus should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2016 ("Annual Consolidated Financial Statements"). The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the Annual Consolidated Financial Statements, except as set out in note 3.

### Basis of Presentation and Consolidation

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

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

The interim consolidated financial statements comprise the financial statements of the Company and the entities under its control and the Company's equity accounted interests in joint ventures and associates.

The preparation of interim consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to these interim consolidated financial statements, are described in note 2 of the Company's Annual Consolidated Financial Statements.

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

The interim consolidated financial statements and accompanying notes as at and for the three-month and six-month periods ended June 30, 2017 were authorized for issue by the Company's Board of Directors ("Board") on August 10, 2017.

## 2. 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 consolidated financial statements.

### IFRS 9, Financial Instruments

In July 2015, 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 consolidated financial statements.

### IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under

## Notes to the Interim Consolidated Financial Statements (Unaudited)

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. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has progressed through the initial implementation plan steps of scoping and identifying its unique revenue streams. The Company has completed reviews of many significant customer contracts with an in depth focus and analysis on potential areas for revenue recognition changes. The Company has not yet determined the impact of this standard on the 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 consolidated financial statements.

### 3. New Accounting Standards Adopted

#### IAS 12, Income Taxes

On January 19, 2016, the IASB issued amendments to IAS 12, *Income Taxes*, relating to the recognition of deferred income tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company's adoption of these amendments did not have a material impact on the interim consolidated financial statements.

### 4. Financial Instruments

The Company has classified its financial instruments as follows:

(in thousands of Canadian dollars)	June 30 2017	December 31 2016
<b>Loans and Receivables, Measured at Amortized Cost</b>		
Loans receivable (note 12)	\$ 8,739	\$ 8,890
Trade accounts receivable, net	231,489	169,116
<b>Held-to-maturity</b>		
Short-term investments	1,834	1,890
Deposit guarantee	111	112
<b>Fair Value through Profit or Loss</b>		
Cash and cash equivalents (note 11)	167,077	194,824
Derivative financial instruments – assets	5,378	9,393
Derivative financial instruments – liabilities	2,896	3,759
<b>Available-for-sale</b>		
Convertible preferred shares	10,000	10,000
<b>Other Financial Liabilities, Measured at Amortized Cost</b>		
Bank indebtedness (note 13)	–	2,463
Accounts payable	92,842	88,980
Deferred purchase consideration	3,851	3,684
Long-term debt (note 14)	254,671	263,528

#### 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 that reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions with

## Notes to the Interim Consolidated Financial Statements (Unaudited)

respect to how market participants would price an asset or liability. These two inputs which are 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 of financial assets and liabilities in the fair value hierarchy as at June 30, 2017:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 167,077	\$ 167,077	\$ –	\$ –
Short-term investments	1,834	1,834	–	–
Loans receivable	8,739	–	8,739	–
Derivative financial instruments	5,378	–	5,378	–
Convertible preferred shares	10,000	–	–	10,000
Deposit guarantee	111	–	111	–
	<b>\$ 193,139</b>	<b>\$ 168,911</b>	<b>\$ 14,228</b>	<b>\$ 10,000</b>
<b>Liabilities</b>				
Deferred purchase consideration	\$ 3,851	\$ –	\$ 3,851	\$ –
Derivative financial instruments	2,896	–	2,896	–
Long-term debt	236,595	–	236,595	–
	<b>\$ 243,342</b>	<b>\$ –</b>	<b>\$ 243,342</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.

### Market Risk

#### 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, 2017, 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 six-month period then ended by approximately \$27.6 million, \$2.7 million and \$1.8 million, respectively. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total equity by \$60.4 million, \$16.4 million and \$43.9 million, respectively, as at June 30, 2017.

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 forward contracts for speculative purposes. With the exception of the Company's net investment hedge in one of its US dollar based subsidiaries, the Company does not hedge translation exposures.

## Notes to the Interim Consolidated Financial Statements (Unaudited)

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

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, 2017:

(in thousands, except weighted average rate amounts)			
Canadian dollars sold for US dollars			
Less than one year		<b>C\$</b>	<b>4,552</b>
Weighted average rate			<b>0.77</b>
US dollars sold for Canadian dollars			
Less than one year		<b>US\$</b>	<b>6,000</b>
Weighted average rate			<b>1.32</b>
US dollars sold for Euros			
Less than one year		<b>US\$</b>	<b>36,911</b>
Weighted average rate			<b>0.91</b>
Euros sold for US dollars			
Less than one year		<b>€</b>	<b>21,989</b>
Weighted average rate			<b>1.11</b>
US dollars sold for British Pounds Sterling			
Less than one year		<b>US\$</b>	<b>2,591</b>
Weighted average rate			<b>0.77</b>
Norwegian Kroners sold for US dollars			
Less than one year		<b>NOK</b>	<b>67,854</b>
Weighted average rate			<b>0.12</b>
Australian dollars sold for US dollars			
Less than one year		<b>AUD</b>	<b>808</b>
Weighted average rate			<b>0.74</b>

As at June 30, 2017, the Company had notional amounts of \$107.5 million of foreign exchange forward contracts outstanding (December 31, 2016 – \$113.7 million) with the fair value of the Company's net gain from all foreign exchange forward contracts totalling \$1.0 million (December 31, 2016 – \$1.1 million net gain).

### Net Investment Hedge

The long-term debt has 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, 2017, a loss of \$8.9 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, 2017.

## Notes to the Interim Consolidated Financial Statements (Unaudited)

### Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at June 30, 2017:

(in thousands of Canadian dollars)	Non-interest Bearing	Floating Rate	Fixed Interest Rate	Total
<b>Financial Assets</b>				
Cash equivalents	\$ –	\$ –	\$ 38,289	\$ 38,289
Short-term investments	–	–	1,834	1,834
Loans receivable	3,905	4,834	–	8,739
Convertible preferred shares	10,000	–	–	10,000
	<b>\$ 13,905</b>	<b>\$ 4,834</b>	<b>\$ 40,123</b>	<b>\$ 58,862</b>
<b>Financial Liabilities</b>				
Standard letters of credit for performance, bid and surety bonds	\$ 73,309	\$ –	\$ –	\$ 73,309
Long-term debt <sup>(a)</sup>	–	–	254,671	254,671
	<b>\$ 73,309</b>	<b>\$ –</b>	<b>\$ 254,671</b>	<b>\$ 327,980</b>

(a) As per the amendment to the Senior Notes Agreement and Credit Facility in December 2016, during any period when the Company is permitted an increased Leverage Ratio, increased interest rates and standby and other fees are payable to the Senior Notes holders and under the Credit Facility.

The Company's interest rate risk arises primarily from the 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, foreign exchange forward 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 six-month period ended June 30, 2017, there was one customer who generated approximately 14.2% of total consolidated revenue (six-month period ended June 30, 2016 – no customer accounted for more than 10% of total consolidated revenue). As at June 30, 2017, this customer accounted for \$26.2 million or approximately 11.3% of the Company's total trade accounts receivable (as at December 31, 2016 – this customer accounted for \$1.9 million or approximately 1.1% of the Company's total trade accounts receivable).

### 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. Access to credit facilities is dependent on the Company's compliance with its debt covenants as outlined in *Note 13 – Credit Facilities*. As at June 30, 2017, the Company had cash and cash equivalents totalling \$167.1 million (December 31, 2016 – \$194.8 million) and had unutilized lines of credit available to use of \$401.8 million (December 31, 2016 – \$399.2 million).

## **5. Segment Information**

Shawcor's operating segments are being reported based on the financial information provided to the Chief Executive Officer, who has been identified as the Chief Operating Decision Maker ("CODM") in monitoring segment performance and allocating resources between segments. The CODM assesses segment performance based on segment operating income or loss, which is measured differently than income from operations in the consolidated financial statements. Income taxes are managed at a consolidated level and are not allocated to the reportable operating segments.

As at June 30, 2017, the Company had two reportable operating segments: Pipeline and Pipe Services; and Petrochemical and Industrial. Inter-segment transactions between Pipeline and Pipe Services and Petrochemical and Industrial are accounted for at negotiated transfer prices. The aggregation of the reportable segments is based on the customers and markets that the Company serves.

### **Pipeline and Pipe Services**

The Pipeline and Pipe Services segment comprises the following divisions:

- Bredero Shaw, which provides pipe coating, lining and insulation products;

## Notes to the Interim Consolidated Financial Statements (Unaudited)

- Canusa – CPS, which manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications;
- Flexpipe Systems, which provides spoolable composite pipe systems;
- Guardian, which provides oilfield tubular management services and inspection, testing and refurbishment of oilfield tubular products;
- Shaw Pipeline Services, which provides ultrasonic and radiographic weld inspection services for land and marine pipeline construction;
- Shawcor Inspection Services (formerly, “Desert NDT”), which provides non-destructive testing services for new oil and gas gathering pipelines and infrastructure integrity management services; and
- Lake Superior Consulting, which provides pipeline engineering and integrity management services to major North American pipeline operators.

### Petrochemical and Industrial

The Petrochemical and Industrial segment is comprised of the Connection Systems division which manufactures:

- wire and cable for process instrumentation and control applications; and
- heat shrinkable tubing for automotive, electrical, electronic and utility applications.

### Financial and Corporate

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.

### Segment

The following table sets forth information by segment for the quarter ended June 30:

(in thousands of Canadian dollars)	Pipeline and Pipe Services		Petrochemical and Industrial		Financial and Corporate		Eliminations and Adjustments		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue										
External	<b>334,834</b>	206,784	<b>48,948</b>	48,575	–	–	–	–	<b>383,782</b>	255,359
Inter-segment	<b>79</b>	206	<b>130</b>	243	–	–	<b>(209)</b>	(449)	–	–
Total Revenue	<b>334,913</b>	206,990	<b>49,078</b>	48,818	–	–	<b>(209)</b>	(449)	<b>383,782</b>	255,359
Income (loss) from operations	<b>27,182</b>	(42,572)	<b>7,945</b>	9,751	<b>(6,893)</b>	(7,971)	–	–	<b>28,234</b>	(40,792)
Income (loss) before income taxes	<b>19,587</b>	(52,650)	<b>7,133</b>	9,508	<b>(3,888)</b>	(4,399)	–	–	<b>22,832</b>	(47,541)

The following table sets forth information by segment for the six months ended June 30:

(in thousands of Canadian dollars)	Pipeline and Pipe Services		Petrochemical and Industrial		Financial and Corporate		Eliminations and Adjustments		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue										
External	<b>643,473</b>	523,735	<b>100,041</b>	97,203	–	–	–	–	<b>743,514</b>	620,938
Inter-segment	<b>474</b>	235	<b>404</b>	488	–	–	<b>(878)</b>	(723)	–	–
Total Revenue	<b>643,947</b>	523,970	<b>100,445</b>	97,691	–	–	<b>(878)</b>	(723)	<b>743,514</b>	620,938
Income (loss) from operations	<b>51,792</b>	(26,379)	<b>17,592</b>	17,346	<b>(15,340)</b>	(15,809)	–	–	<b>54,044</b>	(24,842)
Income (loss) before income taxes	<b>34,669</b>	(41,058)	<b>15,908</b>	16,742	<b>(10,259)</b>	(12,472)	–	–	<b>40,318</b>	(36,788)

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

(in thousands of Canadian dollars)	June 30, 2017	December 31, 2016
Pipeline and Pipe Services	\$ <b>1,636,902</b>	\$ 1,682,578
Petrochemical and Industrial	<b>120,043</b>	113,329
Financial and Corporate	<b>1,435,485</b>	1,431,746
Elimination and adjustments	<b>(1,447,935)</b>	(1,449,862)
	\$ <b>1,744,495</b>	\$ 1,777,791



## Notes to the Interim Consolidated Financial Statements (Unaudited)

### 6. Employee Benefits Expense

The Company's costs for the defined benefit pension plans, the post-retirement life insurance plans and the post-employment benefit plan for the three-month and six-month periods ended June 30, 2017 were \$1.3 and \$2.6 million, respectively (three-month and six-month periods ended June 30, 2016 – \$1.2 and \$2.4 million, respectively). The Company's costs for the defined contribution pension arrangements for the three-month and six-month periods ended June 30, 2017 were \$2.7 and \$5.2 million, respectively (three-month and six-month periods ended June 30, 2016 – \$2.6 and \$5.0 million, respectively).

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

A summary of the status of the Company's stock option and other incentive-based compensation plans and changes during the period is presented below:

#### Stock Options without Tandem Share Appreciation Rights ("SARs")

	Six Months Ended June 30, 2017		Year Ended December 31, 2016	
	Total Shares	Weighted Average Exercise Price	Total Shares	Weighted Average Exercise Price
<b>Balance Outstanding – Beginning of Period</b>	<b>1,173,080</b>	<b>\$ 32.02</b>	1,043,440	\$ 32.27
Granted	163,400	37.40	223,600	27.72
Exercised	(22,895)	27.13	(93,960)	24.58
Forfeited	(600)	15.51	–	–
<b>Balance Outstanding – End of Period</b>	<b>1,312,985</b>	<b>\$ 32.78</b>	1,173,080	\$ 32.02
Options exercisable	827,605	\$ 31.75	724,360	\$ 31.14

June 30, 2017	Options Outstanding			Options Exercisable	
	Outstanding as at June 30, 2017	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at June 30, 2017	Weighted Average Exercise Price
Range of Exercise Price					
\$15.01 to \$20.00	161,520	1.50	\$ 15.51	161,520	\$ 15.51
\$25.01 to \$30.00	292,000	5.29	27.87	150,480	29.15
\$30.01 to \$35.00	224,000	5.31	32.69	179,000	32.81
\$35.01 to \$40.00	342,765	7.29	37.00	131,725	36.95
\$40.01 to \$45.00	246,300	5.50	41.69	177,040	41.62
\$45.01 to \$50.00	46,400	6.50	45.73	27,840	45.73
	<b>1,312,985</b>	<b>5.43</b>	<b>\$ 32.78</b>	<b>827,605</b>	<b>\$ 31.75</b>

December 31, 2016	Options Outstanding			Options Exercisable	
	Outstanding as at December 31, 2016	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at December 31, 2016	Weighted Average Exercise Price
Range of Exercise Price					
\$15.01 to \$20.00	163,720	2.01	\$ 15.51	163,720	\$ 15.51
\$25.01 to \$30.00	307,900	5.57	27.76	131,000	29.45
\$30.01 to \$35.00	227,100	5.80	32.69	145,160	32.81
\$35.01 to \$40.00	181,660	5.76	36.65	118,140	37.11
\$40.01 to \$45.00	246,300	6.01	41.69	147,780	41.69
\$45.01 to \$50.00	46,400	7.01	45.73	18,560	45.73
	<b>1,173,080</b>	<b>5.30</b>	<b>\$ 32.02</b>	<b>724,360</b>	<b>\$ 31.14</b>

The Board of Directors approved the granting of 163,400 stock options during the six month period ended June 30, 2017 (six month period ended June 30, 2016 – 178,600) under the 2001 Employee Plan. The total fair value of the stock options granted during the six month period ended June 30, 2017

## Notes to the Interim Consolidated Financial Statements (Unaudited)

was \$1.34 million (six month period ended June 30, 2016 – \$1.15 million) and was calculated using the Black-Scholes pricing model with the following assumptions:

	Six Months Ended June 30,	
	2017	2016
Weighted average share price	\$ 37.40	\$ 26.60
Exercise price	\$ 37.40	\$ 26.60
Weighted average expected life of options	6.25	6.25
Weighted average expected stock price volatility	28.46%	30.4%
Weighted average expected dividend yield	1.604%	2.14%
Weighted average risk-free interest rate	1.45%	1.08%

The volatility measured at the standard deviation of continuously compounded share returns is based on the statistical analysis of daily share prices over the expected life of the options.

The fair value of options granted will be amortized to compensation expense over the five-year vesting period of the options. The compensation cost from the amortization of stock options for the six month period ended June 30, 2017, included in selling, general and administrative expenses, was \$0.7 million (six month period ended June 30, 2016 – \$0.6 million).

### Stock Options with Tandem Share Appreciation Rights

	Six Months Ended June 30, 2017		Year Ended December 31, 2016	
	Total Shares	Weighted Average Fair Value <sup>(a)</sup>	Total Shares	Weighted Average Fair Value
<b>Balance Outstanding – Beginning of Period</b>	<b>367,300</b>	<b>\$ 10.23</b>	277,300	\$ 11.69
Granted	44,800	8.61	110,800	6.77
Exercised	(5,000)	10.30	–	–
Expired	–	–	(20,800)	11.30
<b>Balance Outstanding – End of Period</b>	<b>407,100</b>	<b>\$ 10.18</b>	367,300	\$ 10.23
Options exercisable	194,760	\$ 10.53	144,000	\$ 10.98

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

The mark-to-market liability for the stock options with SARs as at June 30, 2017 is \$1.0 million (December 31, 2016 – \$2.0 million), which is included in current and non-current other liabilities on the consolidated balance sheets.

There is a long-term incentive program (“LTIP”) for executives and key employees and a deferred share unit (“DSU”) plan for directors of the Company. Additional details with respect to the LTIP and DSU plan are as follows:

#### LTIP

The LTIP includes the existing stock option plan discussed above, the Value Growth Plan (“VGP”), the Employee Share Unit Plan (“ESUP”), and the Performance Incentive Plan (“PIP”).

#### VGP

The VGP is a cash-based awards plan, which rewards executives and key employees for improving revenue and operating income over a three-year performance period. Units granted to participants vest at the end of the third year of the performance period for which they were granted. The value of units is determined based on the growth rate in operating revenue and income on a cumulative basis for the three consecutive years that comprise the performance period and is measured against the prior three-year baseline period. Valuation of the units also includes a total shareholder return calculation to measure Shawcor’s performance compared to its peer group compensation costs, and is recognized on a straight-line basis over the vesting period. All units granted under the VGP will be classified as liability instruments in accordance with IFRS as their terms require that they be settled in cash.

The VGP liability as at June 30, 2017 is \$2.4 million (December 31, 2016 – \$1.7 million).

## Notes to the Interim Consolidated Financial Statements (Unaudited)

### ESUP

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

The following table sets forth the Company’s RSUs/PSUs reconciliation as at the periods indicated:

	Six Months Ended June 30, 2017		Year Ended December 31, 2016	
	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)(b)</sup>	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)(b)</sup>
<b>Balance Outstanding – Beginning of Period</b>	<b>541,441</b>	<b>\$ 31.79</b>	472,849	\$ 32.84
Granted	77,946	33.61	116,333	26.54
Exercised	(12,677)	29.29	(16,033)	28.87
Forfeited	(14,667)	28.68	(31,708)	29.61
<b>Balance Outstanding – End of Period</b>	<b>592,043</b>	<b>\$ 32.16</b>	541,441	\$ 31.79
RSUs/PSUs exercisable	210,793	\$ 33.64	159,264	\$ 33.77

(a) RSU awards do not have an exercise price; their weighted average grant date fair value is the weighted average trading price of the common shares over the five trading days preceding the grant date.

(b) PSU awards do not have an exercise price; their weighted average grant date fair value is the weighted average trading price of the common shares over the five trading days preceding the grant date.

### PIP

On March 2, 2017, the Board approved the PIP under the Company’s LTIP. The PIP is a cash-based awards plan, which rewards designated executives and employees over a three-year performance period. Each unit granted to participants notionally represents one common share and such units vest at the end of the third year from the date they were granted. The value of units at the vesting date is based on the weighted average trading price of the Company’s common shares over the five trading days preceding the vesting date. Compensation cost is recognized on a straight-line basis over the vesting period. All units granted under the PIP will be classified as liability instruments in accordance with IFRS as their terms require that they be settled in cash.

The PIP liability as at June 30, 2017 is \$0.3 thousand (December 31, 2016 – nil).

### DSU

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

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

## Notes to the Interim Consolidated Financial Statements (Unaudited)

The following table sets forth the Company's DSU reconciliation as at the period indicated:

	Six Months Ended June 30, 2017		Year Ended December 31, 2016	
	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>	Total Shares	Weighted Average Grant Date Fair Value <sup>(a)</sup>
<b>Balance Outstanding – Beginning of Period</b>	<b>148,427</b>	<b>\$ 35.15</b>	110,597	\$ 36.37
Granted	18,838	31.61	37,830	31.58
Exercised <sup>(b)</sup>	–	–	–	–
<b>Balance Outstanding – End of Period</b>	<b>167,265</b>	<b>\$ 34.75</b>	148,427	\$ 35.15

(a) DSU awards do not have an exercise price; their weighted average grant date fair value is the weighted average trading price of the common shares over the five trading days preceding the grant date.

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

The mark-to-market liability for the DSUs as at June 30, 2017 is \$4.4 million (December 31, 2016 – \$5.3 million), all of which is included in current other liabilities on the consolidated balance sheets.

### Incentive-based Compensation

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

(in thousands of Canadian dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Stock option expense	\$ 348	\$ 314	\$ 677	\$ 622
SAR (recovery) expense	(1,468)	512	(948)	415
VGP expense (recovery)	1,127	(62)	1,354	(481)
RSUs/PSUs expense	1,008	1,112	1,978	2,232
PIP expense	5	–	28	–
DSU (recovery) expense	(1,635)	761	(890)	1,088
<b>Total incentive-based compensation expense</b>	<b>\$ (615)</b>	<b>\$ 2,637</b>	<b>\$ 2,199</b>	<b>\$ 3,876</b>

### 8. Finance Costs

The following table sets forth the Company's finance costs for the periods ended:

(in thousands of Canadian dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest income	\$ (733)	\$ (183)	\$ (967)	\$ (499)
Interest expense, other	1,372	1,418	2,964	2,332
Interest expense on long-term debt	4,144	2,738	8,414	6,884
<b>Finance Costs – net</b>	<b>\$ 4,783</b>	<b>\$ 3,973</b>	<b>\$ 10,411</b>	<b>\$ 8,717</b>

## Notes to the Interim Consolidated Financial Statements (Unaudited)

### 9. Income Taxes

The following table sets forth a reconciliation of the Company's effective income tax rate for the three months ended June 30:

	Six Months Ended June 30,	
	2017	2016
	%	%
Expected statutory income tax rate	<b>26.8</b>	26.9
Tax rate differential on earnings of foreign subsidiaries	<b>(7.3)</b>	10.6
Benefit of previously unrecognized tax losses	<b>(8.2)</b>	6.1
Unrecognized losses	<b>22.1</b>	(28.7)
Adjustment to prior year provisions	<b>(5.5)</b>	(4.8)
Permanent differences not deductible for tax purposes	<b>(9.1)</b>	1.1
Withholding taxes	<b>3.5</b>	(6.4)
Other	<b>0.9</b>	4.0
<b>Effective Tax Rate</b>	<b>23.2</b>	8.8

### 10. Earnings (Loss) Per Share

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

(in thousands of Canadian dollars, except share and per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss) used to calculate EPS				
Net income (loss) (attributable to shareholders of the Company) for the period	<b>\$ 16,064</b>	\$ (41,678)	<b>\$ 31,196</b>	\$ (34,217)
Weighted average number of shares outstanding – basic (000's)	<b>69,932</b>	64,589	<b>69,916</b>	64,560
Dilutive effect of share-based compensation	<b>101</b>	–	<b>108</b>	–
Weighted average number of shares outstanding – diluted (000's)	<b>70,033</b>	64,589	<b>70,024</b>	64,560
Basic EPS	<b>\$ 0.23</b>	\$ (0.65)	<b>\$ 0.45</b>	\$ (0.53)
Diluted EPS	<b>\$ 0.23</b>	\$ (0.65)	<b>\$ 0.45</b>	\$ (0.53)

### 11. Cash and Cash Equivalents

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

(in thousands of Canadian dollars)	June 30, 2017	December 31, 2016
Cash	<b>\$ 128,788</b>	\$ 98,911
Cash equivalents	<b>38,289</b>	95,913
<b>Total</b>	<b>\$ 167,077</b>	\$ 194,824

## Notes to the Interim Consolidated Financial Statements (Unaudited)

### 12. Loans Receivable

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

(in thousands of Canadian dollars)	June 30 2017	December 31 2016
<b>Current</b>		
Notes receivable	\$ 75	\$ 82
Loan receivable	3,750	3,750
	<b>3,825</b>	3,832
<b>Non-current</b>		
Notes receivable <sup>(a)</sup>	\$ 4,834	\$ 5,003
Loan receivable	80	55
	<b>4,914</b>	5,058
<b>Total</b>	<b>\$ 8,739</b>	<b>\$ 8,890</b>

(a) Long-term notes receivable relate to an amount advanced by the Company to an external party to support the construction of port facilities at a Bredero Shaw plant location in Kabil, Indonesia. Interest is payable semi-annually at US prime plus 0.25%, with principal repayments to be made in four semi-annual instalments beginning no later than March 31, 2018, as set out in the loan agreement terms. As at June 30, 2017, the amount of the notes receivable was US\$3,726 (December 31, 2016 – US\$3,726).

### 13. Credit Facilities

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

(in thousands of Canadian dollars)	June 30 2017	December 31 2016
Bank indebtedness	\$ –	\$ 2,463
Standard letters of credit for performance, bid and surety bonds (note 15)	74,315	90,898
Total utilized credit facilities	74,315	93,361
Total available credit facilities <sup>(a)</sup>	476,100	492,610
<b>Unutilized Credit Facilities</b>	<b>\$ 401,785</b>	<b>\$ 399,249</b>

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

The Company pays a floating interest rate on its Unsecured Committed Bank Credit Facility (the "Credit Facility") that is a function of the Company's Total Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio. Allowable credit utilization outside of this facility is US\$50 million.

#### Debt Covenants

The Company has undertaken to maintain certain covenants in respect of the Unsecured Committed Bank Credit Facility. Specifically, the Company is required to maintain an Interest Coverage Ratio (EBITDA plus rental payments divided by interest expense plus rental payments) of more than 2.50 to 1.00 and Leverage Ratio (Total Debt to EBITDA) of less than 3.00 to 1.00.

For the quarter ended June 30, 2017, the Company was required to be in compliance with the following amendments made in December 2016:

- a) an increase in the maximum Leverage Ratio to 3.25 to 1.00; with EBITDA for the quarter to be calculated by adding the EBITDA for first quarter of 2017 and the EBITDA for the second quarter of 2017 and then multiplying such sum by 2;
- b) an amendment to the method of calculation of the Interest Coverage Ratio/Fixed Charge Ratio such that each of the components of such ratio (EBITDA, interest expense and rental payments) is calculated on a basis similar to the calculation of the Leverage Ratio for such quarters; and
- 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.

The Company was in compliance with the Interest Coverage Ratio and Leverage Ratio as at June 30, 2017.

## Notes to the Interim Consolidated Financial Statements (Unaudited)

### 14. Long-term Debt

The Senior Notes balance as at June 30, 2017 was \$254.7 million (US\$196.3 million) (December 31, 2016 – \$263.5 million (US\$196.3 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 4.

In respect of the long-term debt, the Company is required to maintain certain covenants that are consistent with the debt covenants described in note 13 for the Credit Facility. The Company was in compliance with these covenants as at June 30, 2017.

### 15. Commitments and Contingencies

#### 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 utilizes the Credit Facility to support its bonds. The Company has utilized total credit facilities of \$74.3 million as at June 30, 2017 (December 31, 2016 – \$90.9 million) for support of its bonds. In addition, as at June 30, 2017, the Company had \$32.3 million of outstanding surety bonds through insurance companies (December 31, 2016 – \$107.2 million).

### 16. Share Capital

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

The following table sets forth the changes in the Company's shares for the periods indicated:

(in thousands of Canadian dollars)	
<b>Number of Shares</b>	
Balance, December 31, 2016	69,892,544
Issued on exercise of stock options	22,895
Issued on exercise of SARs	5,000
Issued on exercise of RSUs	12,677
<b>Balance, June 30, 2017</b>	<b>69,933,116</b>
<b>Stated Value:</b>	
Balance, December 31, 2016	\$ 703,316
Issued on exercise of stock options	622
Issued on exercise of SARs	137
Compensation cost on exercised stock options	276
Compensation cost on exercised RSUs	393
<b>Balance, June 30, 2017</b>	<b>\$ 704,744</b>

## Notes to the Interim Consolidated Financial Statements (Unaudited)

(in thousands of Canadian dollars)

### Number of Shares

Balance, December 31, 2015	64,521,301
Issued through public offering	5,261,250
Issued on exercise of stock options	93,960
Issued on exercise of RSUs	16,033
Balance, December 31, 2016	69,892,544

### Stated Value:

Balance, December 31, 2015	\$ 534,484
Issued through public offering (net of commissions and share issuance costs of \$7.3 million)	165,295
Issued on exercise of stock options	2,311
Compensation cost on exercised stock options	764
Compensation cost on exercised RSUs	462
Balance, December 31, 2016	\$ 703,316

Dividends declared and paid were as follows:

(in thousands of Canadian dollars, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Dividends declared and paid to shareholders	\$ 10,477	\$ 9,689	\$ 20,964	\$ 19,322
Dividends declared and paid per share	\$ 0.15	\$ 0.15	\$ 0.30	\$ 0.30







## **SHAWCOR LTD.**

Shawcor is a global energy services company operating through eight business units which focus on technology-based products and services for pipe, pipeline and petrochemical and industrial markets with manufacturing and service facilities located in over twenty countries around the world.

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# SHAWCOR LTD.

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