

**Shawcor Ltd.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**June 30, 2018**

# Shawcor Ltd.

## Interim Consolidated Statements of Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017 <sup>(a)</sup>	2018	2017 <sup>(a)</sup>
(in thousands of Canadian dollars, except per share amounts)				
<b>Revenue (note 3)</b>				
Sale of products	\$ 159,119	\$ 126,306	\$ 314,036	\$ 252,422
Rendering of services	198,768	257,265	394,370	491,209
	<b>357,887</b>	383,571	<b>708,406</b>	743,631
<b>Cost of Goods Sold and Services Rendered</b>	<b>242,782</b>	239,735	<b>476,515</b>	469,806
<b>Gross Profit</b>	<b>115,105</b>	143,836	<b>231,891</b>	273,825
Selling, general and administrative expenses	80,547	85,670	159,872	164,697
Research and development expenses	3,300	2,254	6,404	5,872
Foreign exchange (gains) losses	(5,740)	2,164	(6,567)	3,588
Amortization of property, plant and equipment	16,710	20,904	35,931	35,648
Amortization of intangible assets	4,606	5,132	9,132	10,170
Gain on sale of land	–	(311)	–	(311)
<b>Income from Operations</b>	<b>15,682</b>	28,023	<b>27,119</b>	54,161
Gain (loss) from investments in associates	293	(619)	177	(3,315)
Finance costs, net (note 7)	(2,984)	(4,783)	(5,650)	(10,411)
<b>Income before Income Taxes</b>	<b>12,991</b>	22,621	<b>21,646</b>	40,435
Income taxes (note 8)	2,838	6,836	6,151	9,413
<b>Net Income</b>	<b>\$ 10,153</b>	\$ 15,785	<b>\$ 15,495</b>	\$ 31,022
<b>Net Income Attributable to:</b>				
Shareholders of the Company	\$ 9,914	\$ 15,877	\$ 15,124	\$ 31,270
Non-controlling interests	239	(92)	371	(248)
<b>Net Income</b>	<b>\$ 10,153</b>	\$ 15,785	<b>\$ 15,495</b>	\$ 31,022
<b>Earnings per Share ("EPS") (note 9)</b>				
Basic	\$ 0.14	\$ 0.23	\$ 0.22	\$ 0.45
Diluted	\$ 0.14	\$ 0.23	\$ 0.22	\$ 0.45
<b>Weighted Average Number of Shares Outstanding</b> (000s) (note 9)				
Basic	70,058	69,932	70,037	69,916
Diluted	70,148	70,033	70,180	70,024

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 3 for further details.

# Shawcor Ltd.

## Interim Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands of Canadian dollars)	2018	2017 <sup>(a)</sup>	2018	2017 <sup>(a)</sup>
<b>Net Income for the Period</b>	\$ 10,153	\$ 15,785	\$ 15,495	\$ 31,022
<b>Other Comprehensive (Loss) Income to be Reclassified to Net Income in Subsequent Periods</b>				
Exchange differences on translation of foreign operations	(7,072)	(7,416)	13,989	(9,992)
Other comprehensive loss attributable to investments in associates	(166)	(84)	(125)	(182)
<b>Net Other Comprehensive (Loss) Income to be Reclassified to Net Income in Subsequent Periods</b>	<b>(7,238)</b>	<b>(7,500)</b>	<b>13,864</b>	<b>(10,174)</b>
<b>Other Comprehensive Income (Loss) not to be Reclassified to Net Income in Subsequent Periods</b>				
Actuarial gain (loss) on defined benefit plan	36	(10)	26	(13)
Income tax (recovery) expense	(10)	2	(6)	3
<b>Net Other Comprehensive Income (Loss) not to be Reclassified to Net Income in Subsequent Periods</b>	<b>26</b>	<b>(8)</b>	<b>20</b>	<b>(10)</b>
<b>Other Comprehensive (Loss) Income, Net of Income Tax</b>	<b>(7,212)</b>	<b>(7,508)</b>	<b>13,884</b>	<b>(10,184)</b>
<b>Total Comprehensive Income</b>	<b>\$ 2,941</b>	<b>\$ 8,277</b>	<b>\$ 29,379</b>	<b>\$ 20,838</b>
<b>Comprehensive Income Attributable to:</b>				
Shareholders of the Company	\$ 3,494	\$ 8,016	\$ 29,727	\$ 20,666
Non-controlling interests	(553)	261	(348)	172
<b>Total Comprehensive Income</b>	<b>\$ 2,941</b>	<b>\$ 8,277</b>	<b>\$ 29,379</b>	<b>\$ 20,838</b>

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 3 for further details.

# ShawCor Ltd.

## Interim Consolidated Balance Sheets (Unaudited)

(in thousands of Canadian dollars)	June 30, 2018	December 31, 2017 <sup>(a)</sup>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (note 11)	\$ 241,818	\$ 289,065
Loans receivable (note 12)	1,729	2,448
Accounts receivable	240,402	194,439
Contract assets	39,718	65,413
Income taxes receivable	26,837	20,205
Inventories	138,529	115,018
Prepaid expenses	22,136	21,931
Derivative financial instruments (note 4)	1,900	382
<b>Total current assets</b>	<b>713,069</b>	<b>708,901</b>
<b>Non-current Assets</b>		
Loans receivable (note 12)	2,396	2,283
Property, plant and equipment	421,829	417,781
Intangible assets	162,171	164,872
Investments in associates	30,240	20,188
Deferred income tax assets	33,200	33,979
Other assets	8,650	20,606
Goodwill	342,706	329,391
<b>Total non-current assets</b>	<b>1,001,192</b>	<b>989,100</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,714,261</b>	<b>\$ 1,698,001</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 219,242	\$ 201,017
Provisions	22,246	27,361
Income taxes payable	32,232	42,904
Derivative financial instruments (note 4)	111	1,915
Contract liabilities	40,478	44,826
Obligations under finance lease	521	1,111
Other liabilities	6,866	11,848
<b>Total current liabilities</b>	<b>321,696</b>	<b>330,982</b>
<b>Non-current Liabilities</b>		
Long-term debt (note 14)	258,444	246,175
Obligations under finance lease	11,113	10,840
Provisions	36,201	36,555
Employee future benefits	18,203	18,552
Deferred income tax liabilities	3,783	6,448
Other liabilities	7,854	3,665
<b>Total non-current liabilities</b>	<b>335,598</b>	<b>322,235</b>
<b>Total Liabilities</b>	<b>657,294</b>	<b>653,217</b>
<b>Equity</b>		
Share capital (note 16)	707,958	704,956
Contributed surplus	28,469	27,651
Retained earnings	296,314	302,206
Non-controlling interests	5,500	5,848
Accumulated other comprehensive income	18,726	4,123
<b>Total Equity</b>	<b>1,056,967</b>	<b>1,044,784</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 1,714,261</b>	<b>\$ 1,698,001</b>

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 3 for further details.

# ShawCor Ltd.

## Interim Consolidated Statements of Changes in Equity (Unaudited)

(in thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings <sup>(a)</sup>	Non- controlling Interests	Accumulated Other Comprehensive Income (Loss)	Total Equity <sup>(a)</sup>
	\$	\$	\$	\$	\$	\$
<b>Balance – December 31, 2017</b>	<b>704,956</b>	<b>27,651</b>	<b>302,206</b>	<b>5,848</b>	<b>4,123</b>	<b>1,044,784</b>
Net income	–	–	15,124	371	–	15,495
Other comprehensive (loss) income	–	–	–	(719)	14,603	13,884
Comprehensive income (loss)	–	–	15,124	(348)	14,603	29,379
Issued on exercise of stock options	1,440	–	–	–	–	1,440
Compensation cost on exercised options	558	(558)	–	–	–	–
Compensation cost on exercised Restricted Share Units	1,004	(1,004)	–	–	–	–
Share-based compensation expense	–	2,380	–	–	–	2,380
Dividends declared and paid to shareholders (note 16)	–	–	(21,016)	–	–	(21,016)
<b>Balance June 30, 2018</b>	<b>707,958</b>	<b>28,469</b>	<b>296,314</b>	<b>5,500</b>	<b>18,726</b>	<b>1,056,967</b>
<b>Balance – January 1, 2017</b>	<b>703,316</b>	<b>23,379</b>	<b>272,997</b>	<b>5,892</b>	<b>37,408</b>	<b>1,042,992</b>
Net income (loss) <sup>(a)</sup>	–	–	31,270	(248)	–	31,022
Other comprehensive income (loss)	–	–	–	420	(10,604)	(10,184)
Comprehensive income (loss)	–	–	31,270	172	(10,604)	20,838
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>283,303</b>	<b>6,064</b>	<b>26,804</b>	<b>1,046,280</b>

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 3 for further details.

# Shawcor Ltd.

## Interim Consolidated Statements of Cash Flows (Unaudited)

(in thousands of Canadian dollars)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017 <sup>(a)</sup>	2018	2017 <sup>(a)</sup>
<b>Operating Activities</b>				
Net income	\$ 10,153	\$ 15,785	\$ 15,495	\$ 31,022
Add (deduct) items not affecting cash				
Amortization of property, plant and equipment	16,710	20,904	35,931	35,648
Amortization of intangible assets	4,606	5,132	9,132	10,170
Amortization of long-term prepaid expenses	96	729	91	831
Decommissioning liabilities expenses	37	133	210	213
Other provision (recovery) expenses	(3,381)	952	(234)	934
Share-based compensation and incentive-based compensation (note 10)	4,090	(615)	6,613	2,199
Loss (gain) on disposal of property, plant and equipment	252	(1,109)	189	(1,700)
Gain on sale of land	–	(311)	–	(311)
Unrealized (gain) loss on derivative financial instruments	(1,791)	(1,775)	(3,322)	3,152
(Gain) loss from investments in associates	(293)	619	(177)	3,315
Deferred income taxes	313	(1,921)	(1,671)	(5,493)
Other	–	(719)	(4,112)	(251)
Settlement of decommissioning liabilities	–	(327)	–	(483)
Settlement of other provisions	(2,276)	(987)	(6,158)	(1,560)
Net change in employee future benefits	(142)	385	(193)	744
Change in non-cash working capital and foreign exchange	(1,366)	4,183	(53,783)	(62,034)
<b>Cash Provided by (Used in) Operating Activities</b>	<b>\$ 27,008</b>	<b>\$ 41,058</b>	<b>\$ (1,989)</b>	<b>\$ 16,396</b>
<b>Investing Activities</b>				
Decrease (increase) in loans receivable (note 12)	686	17	841	(27)
Decrease in short-term investments	–	41	–	56
Purchase of property, plant and equipment	(22,738)	(14,794)	(32,215)	(24,277)
Proceeds on disposal of property, plant and equipment	142	3,521	649	4,400
(Increase) decrease in other assets	(3,217)	4,180	(2,973)	68
<b>Cash Used in Investing Activities</b>	<b>\$ (25,127)</b>	<b>\$ (7,035)</b>	<b>\$ (33,698)</b>	<b>\$ (19,780)</b>
<b>Financing Activities</b>				
Decrease in bank indebtedness	–	–	–	(2,463)
Repayment of obligations under finance lease	(247)	(230)	(546)	(512)
Issuance of shares (note 16)	109	278	1,440	759
Dividends paid to shareholders (note 16)	(10,510)	(10,477)	(21,016)	(20,964)
<b>Cash Used in Financing Activities</b>	<b>\$ (10,648)</b>	<b>\$ (10,429)</b>	<b>\$ (20,122)</b>	<b>\$ (23,180)</b>
<b>Effect of Foreign Exchange on Cash and Cash Equivalents</b>				
	2,206	(1,282)	8,562	(1,183)
<b>Net (decrease) increase in Cash and Cash Equivalents</b>	<b>(6,561)</b>	<b>22,312</b>	<b>(47,247)</b>	<b>(27,747)</b>
<b>Cash and Cash Equivalents - Beginning of Period</b>	<b>248,379</b>	<b>144,765</b>	<b>289,065</b>	<b>194,824</b>
<b>Cash and Cash Equivalents - End of Period</b>	<b>\$ 241,818</b>	<b>\$ 167,077</b>	<b>\$ 241,818</b>	<b>\$ 167,077</b>

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. See Note 3 for further details.

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 and Pipe Services and the Petrochemical and 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.

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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, 2017 ("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, 2018 were authorized for issue by the Company's Board of Directors ("Board") on August 9, 2018.

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

### **IFRS 16, *Leases***

IFRS 16, issued by the International Accounting Standards Board ("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 approved its implementation plan and completed the scoping exercise process for reviewing its lease contracts. A new software is being evaluated which will assist the Company to collect the information and calculate the related accounting impacts to comply with the requirements of the standard. The Company has commenced the data validation process which is expected to continue throughout 2018. The Company has not yet determined the impact of adopting this standard on the consolidated financial statements.

### ***Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)***

In October 2017, the IASB issued Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28). The amendments clarify that a company applies IFRS 9, *Financial Instruments*, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendments are effective from January 1, 2019, with early application permitted. The Company has not yet determined the impact of adopting this standard on the consolidated financial statements.



### **IFRIC 23, *Uncertainty over Income Tax Treatments***

In June 2017, the IASB published IFRIC 23, *Uncertainty over Income Tax Treatments*, effective for annual periods beginning on or after January 1, 2019. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgment in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The interpretation may be applied on either a fully retrospective basis or a modified retrospective basis without restatement of comparative information. The Company has not yet determined the impact of adopting this standard on the consolidated financial statements.

## **3 New Accounting Standards Adopted**

### **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. The Company has adopted the new standard effective January 1, 2018. The Company performed an impact assessment on the classification and measurement of the amendments and determined that there is no material impact of adopting this standard on its 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 adopted the new standard effective January 1, 2018. The Company performed an impact assessment of all aspects of IFRS 9 and determined that there is no material impact on its consolidated financial statements on adoption of this standard. The Company elected to designate an investment in equity instruments as Fair Value through Other Comprehensive Income (“FVOCI”).

### **IFRIC 22, *Foreign Currency Transactions and Advance Consideration***

IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, clarifies that the date of foreign currency transactions for purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The interpretation is effective for periods beginning on or after January 1, 2018 and may be applied either retrospectively or prospectively. The Company adopted this standard on January 1, 2018 and has determined that there is no material impact of adopting this standard on its 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 to in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more prescriptive approach to measuring and recognizing revenue. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has adopted the standard using the full retrospective method, effective January 1, 2018.

The Company has performed contract reviews in all divisions to identify the impact of the new standard and concluded that the sale of goods will continue to be recognized at a point in time and rendering of services will be recognized over time. The Company has identified minor changes in how revenue is allocated to performance obligations and the resulting timing of revenue recognition from some contracts originating in the Pipeline and Pipe Services segment, primarily related to field joint contracts. Previously, tasks associated with customer contract requirements were recognized into revenue based on task completion outlined in contracts. Under the new standard, some of these tasks are not defined as distinct performance obligations but rather are recognized as part of the primary performance obligation. The Company also concluded that some costs incurred in those contracts meet the definition of costs to fulfill.

To enhance clarity, comparability and utility of financial information post-implementation of the standard, the Company applied the standard retrospectively subject to permitted and elected practical expedients including:

- i. No restatement for contracts that began and ended within the same annual reporting period.
- ii. No restatement for contracts that were completed or modified prior to January 1, 2017.
- iii. No disclosure of the aggregate transaction prices allocated to the remaining unfulfilled or partially unfulfilled performance obligations for periods ended prior to January 1, 2018.

For the purposes of applying the new standard on an ongoing basis, the Company will be using the practical expedient to not disclose the transaction prices allocated to the remaining unfulfilled, or partially unfulfilled performance obligations from contracts originally expected to have a duration of one year or less.

The impact of the adoption of the standard on the Company's consolidated balance sheets primarily relates to reclassifications among financial statement accounts to align with the new standard. Most notably, contracts in process for which the Company has rendered service in advance of billing are presented as contract assets as opposed to unbilled revenue assets within accounts receivable, based on amounts unbilled. Additionally, capitalized costs to fulfill contracts are included within contract assets. Advance payments and deferred revenue are combined and presented as contract liabilities.

The impact of adopting the standard on the Company's 2017 fiscal quarters for revenue, cost of goods sold, net income (loss) and basic and diluted earnings per share (EPS) was as follows:

	Three Months Ended				Twelve Months Ended
	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Dec 31, 2017
(in thousands of Canadian dollars, except per share amounts)					
Revenue	\$ 328	\$ (211)	\$ (2,026)	\$ 756	\$ (1,153)
Cost of Goods Sold and Services Rendered	-	-	(1,083)	185	(898)
Income (Loss) before Income Taxes	328	(211)	(943)	571	(255)
Income Tax Expense (Recovery)	67	(24)	(21)	(125)	(103)
Net Income (Loss)	261	(187)	(922)	696	(152)
Basic Earnings (Loss) per share	0.00	0.00	(0.01)	0.01	0.00
Diluted Earnings (Loss) per share	0.00	0.00	(0.01)	0.01	0.00

The cumulative impact to retained earnings as at January 1, 2017 was a reduction of \$0.05 million.

### **Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and net of taxes or duty.

The Company has concluded that it is the principal in its revenue arrangements since it is the primary obligor, has pricing latitude and is exposed to inventory and credit risks. Revenue is recognized when or as control of a good or service is transferred to a customer as satisfaction of a performance obligation. The majority of the Company's revenue is from short

term contracts associated with the sale of goods or the rendering of services from pipe coating, inspection, repair and other services provided in respect of customer-owned property.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in IFRS 15. A contract's price is allocated to distinct performance obligations on a standalone selling price basis. The majority of the Company's contracts have a single performance obligation as the promise to transfer the goods or services is not separately identifiable from other promises in the contracts and, therefore, are not distinct. For contracts with multiple performance obligations, the allocation of the transaction price is done using management's best estimate of the standalone selling price of distinct goods or services in the contract using a cost plus gross margin approach within typical and reasonable variance ranges for similar contracts.

#### Sale of Goods

Revenue from the sale of goods is recognized when the control of the goods has passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue for the sale of goods is recognized at a point in time, upon transfer of control of the goods based upon the specified delivery terms.

#### Rendering of Services

Revenue from pipe coating, inspection, repair and other services provided in respect of customer-owned property is recognized as services are performed under specific contracts and recognized by reference to the stage of completion. Stage of completion is determined based on surveys of work performed as measured by units of production to date multiplied by contractually agreed upon rates. Revenue from the rendering of services is usually recognized as the performance obligations are satisfied over time as the work progresses. Substantially all of the revenue from the rendering of services is recognized over time. Revenue recognized over time is done using both input and output measures, depending upon the service being provided. For input measures, the cost incurred to date relative to the total estimated project costs at completion is used to measure progress. For output measures, the units of pipe coating or hours of service completed is used to measure progress.

Services performed in advance of billings are recorded as unbilled revenue pursuant to contractual terms. In general, amounts become billable upon the achievement of contract milestones (such as the commencement of coating) or in accordance with predetermined payment schedules. Changes in the scope of work are not included in net revenue unless the changes are probable and can be reliably measured.

The Company records payments received in advance of revenue recognition from customers as contract liabilities, which are then recognized as revenue as goods are delivered and as services are performed.

**Contract Assets** – Contract assets include unbilled amounts typically resulting from sales under contracts when an input or output method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. Amounts may not exceed their net realizable value. Additionally, capitalized costs to fulfill contracts are included within contract assets. Contract assets are generally classified as current.

**Contract Liabilities** – Contract liabilities consist of advance payments and billings in excess of revenue recognized and deferred revenue. Contract assets and liabilities are reported on a net position on a contract by contract basis at the end of each reporting period. Advance payments and deferred revenue are combined and presented as contract liabilities under current liabilities. Contract liabilities as at June 30, 2018 were \$40.5 million (December 31, 2017 – Deferred revenue of \$44.8 million), of which \$50.1 million was deducted and recognized as revenue during the six months ended June 30, 2018, and \$45.8 million was added during the six months ended June 30, 2018.

## Geographical Segment Revenue Information

The table below sets forth, by geographical region, revenue for the three and six-month period ended June 30 for the Pipeline and Pipe Services segment:

(in thousands of Canadian dollars)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017 <sup>(a)</sup>	2018	2017 <sup>(a)</sup>
North America	\$ 199,037	\$ 155,313	\$ 373,234	\$ 302,218
Latin America	32,848	99,559	70,220	128,674
EMAR	46,307	48,960	98,855	111,643
Asia Pacific	25,467	30,870	61,316	101,529
<b>Total revenue</b>	<b>\$ 303,659</b>	<b>\$ 334,702</b>	<b>\$ 603,625</b>	<b>\$ 644,064</b>

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017.

The table below sets forth, by geographical region, revenue for the three six-month period ended June 30 for the Petrochemical and Industrial segment:

(in thousands of Canadian dollars)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
North America	\$ 31,819	\$ 28,255	\$ 60,064	\$ 59,727
EMAR	19,959	17,772	39,835	34,450
Asia Pacific	2,834	3,051	5,720	6,268
<b>Total revenue</b>	<b>\$ 54,612</b>	<b>\$ 49,078</b>	<b>\$ 105,619</b>	<b>\$ 100,445</b>

## 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 next 12 months. The order backlog of \$447 million as at June 30, 2018 was higher than the \$385 million order backlog as at December 31, 2017.

## Impacts of application of IFRS 15, *Revenue from Contracts with Customers*

- a) IFRS 15, *Revenue from Contracts with Customers*, will affect the fiscal 2017 comparative amounts to be reported in our fiscal 2018 consolidated statement of income as follows:

(in thousands of Canadian dollars, except per share amounts)	Twelve Months Ended December 31, 2017	IFRS 15 - Revenue Effects	Restated Twelve Months Ended December 31, 2017
	\$	\$	\$
<b>Revenue</b>			
Sale of products	509,491	–	<b>509,491</b>
Rendering of services	1,057,161	(1,153)	<b>1,056,008</b>
	1,566,652	(1,153)	<b>1,565,499</b>
<b>Cost of goods sold and Services Rendered</b>	980,919	(898)	<b>980,021</b>
<b>Gross profit</b>	585,733	(255)	<b>585,478</b>
Selling, general and administrative expenses	342,991	–	<b>342,991</b>
Research and development expenses	10,536	–	<b>10,536</b>
Foreign exchange gains	(249)	–	<b>(249)</b>
Amortization of property, plant and equipment	77,267	–	<b>77,267</b>
Amortization of intangible assets	19,170	–	<b>19,170</b>
Gain on sale of land	(311)	–	<b>(311)</b>
Impairment	8,073	–	<b>8,073</b>
<b>Income from operations</b>	128,256	(255)	<b>128,001</b>
Loss from investment in associates	(6,271)	–	<b>(6,271)</b>
Finance costs, net	(16,817)	–	<b>(16,817)</b>
<b>Income before income taxes</b>	105,168	(255)	<b>104,913</b>
Income taxes	33,988	(103)	<b>33,885</b>
<b>Net income</b>	71,180	(152)	<b>71,028</b>
<b>Net Income Attributable to:</b>			
Shareholders of the Company	71,307	(152)	<b>71,155</b>
Non-controlling interests	(127)	–	<b>(127)</b>
<b>Net Income</b>	71,180	(152)	<b>71,028</b>
<b>Earnings per Share</b>			
Basic	1.02		<b>1.02</b>
Diluted	1.02		<b>1.02</b>
<b>Weighted Average Number of Shares Outstanding (000s)</b>			
Basic	69,926		<b>69,926</b>
Diluted	70,102		<b>70,102</b>

- b) IFRS 15, *Revenue from Contracts with Customers*, will affect the fiscal 2017 comparative amounts to be reported in our fiscal 2018 consolidated balance sheet as follows:

	December 31, 2017			January 1, 2017		
(in thousands of Canadian dollars)	December 31, 2017	IFRS 15 - Effects	December 31, 2017 Restated 2017	Excluding Effects of IFRS 15	IFRS 15 - Effects	Pro Forma
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 289,065	\$ -	\$ 289,065	\$ 194,824	\$ -	\$ 194,824
Short-term investments	-	-	-	1,890	-	1,890
Loans receivable	2,448	-	2,448	3,832	-	3,832
Accounts receivable	259,694	(65,255)	194,439	294,397	(84,233)	210,164
Contract assets	-	65,413	65,413	-	84,161	84,161
Income taxes receivable	20,205	-	20,205	35,141	-	35,141
Inventories	115,479	(461)	115,018	113,485	-	113,485
Prepaid expenses	21,931	-	21,931	22,477	-	22,477
Derivative financial instruments	382	-	382	9,393	-	9,393
<b>Total current assets</b>	<b>709,204</b>	<b>(303)</b>	<b>708,901</b>	<b>675,439</b>	<b>(72)</b>	<b>675,367</b>
<b>Non-current assets</b>						
Loans receivable	2,283	-	2,283	5,058	-	5,058
Property, plant and equipment	417,781	-	417,781	471,468	-	471,468
Intangible assets	164,872	-	164,872	192,907	-	192,907
Investments in associates	20,188	-	20,188	26,739	-	26,739
Deferred income tax assets	33,876	103	33,979	28,955	24	28,979
Other assets	20,606	-	20,606	26,407	-	26,407
Goodwill	329,391	-	329,391	350,818	-	350,818
<b>Total non-current assets</b>	<b>988,997</b>	<b>103</b>	<b>989,100</b>	<b>1,102,352</b>	<b>24</b>	<b>1,102,376</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,698,201</b>	<b>\$ (200)</b>	<b>\$ 1,698,001</b>	<b>\$ 1,777,791</b>	<b>\$ (48)</b>	<b>\$ 1,777,743</b>
<b>LIABILITIES AND EQUITY</b>						
<b>Current liabilities</b>						
Bank indebtedness	\$ -	\$ -	\$ -	\$ 2,463	\$ -	\$ 2,463
Accounts payable and accrued liabilities	201,017	-	201,017	212,539	-	212,539
Provisions	27,361	-	27,361	21,104	-	21,104
Income taxes payable	42,904	-	42,904	39,011	-	39,011
Derivative financial instruments	1,915	-	1,915	3,759	-	3,759
Contract liabilities	44,826	-	44,826	103,584	-	103,584
Obligations under finance lease	1,111	-	1,111	950	-	950
Other liabilities	11,848	-	11,848	12,043	-	12,043
<b>Total current liabilities</b>	<b>330,982</b>	<b>-</b>	<b>330,982</b>	<b>395,453</b>	<b>-</b>	<b>395,453</b>
<b>Non-current liabilities</b>						
Long-term debt	246,175	-	246,175	263,528	-	263,528
Obligations under finance lease	10,840	-	10,840	11,019	-	11,019
Provisions	36,555	-	36,555	35,304	-	35,304
Employee future benefits	18,552	-	18,552	20,727	-	20,727
Deferred income tax liabilities	6,448	-	6,448	7,484	-	7,484
Other liabilities	3,665	-	3,665	1,236	-	1,236
<b>Total non-current liabilities</b>	<b>322,235</b>	<b>-</b>	<b>322,235</b>	<b>339,298</b>	<b>-</b>	<b>339,298</b>
<b>Total Liabilities</b>	<b>653,217</b>	<b>-</b>	<b>653,217</b>	<b>734,751</b>	<b>-</b>	<b>734,751</b>
<b>Equity</b>						
Share capital	704,956	-	704,956	703,316	-	703,316
Contributed surplus	27,651	-	27,651	23,379	-	23,379
Retained earnings	302,406	(200)	302,206	273,045	(48)	272,997
Non-controlling interests	5,848	-	5,848	5,892	-	5,892
Accumulated other comprehensive income	4,123	-	4,123	37,408	-	37,408
<b>Total Equity</b>	<b>1,044,984</b>	<b>(200)</b>	<b>1,044,784</b>	<b>1,043,040</b>	<b>(48)</b>	<b>1,042,992</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 1,698,201</b>	<b>\$ (200)</b>	<b>\$ 1,698,001</b>	<b>\$ 1,777,791</b>	<b>\$ (48)</b>	<b>\$ 1,777,743</b>

## 4 Financial Instruments

The Company has classified its financial instruments as follows:

(in thousands of Canadian dollars)	<b>June 30, 2018</b>	December 31, 2017
<b>Measured at Amortized Cost</b>		
Loans receivable (note 12)	\$ 4,125	\$ 4,731
Trade accounts receivable, net	212,614	179,105
Deposit guarantee	255	109
<b>Fair Value through Profit or Loss</b>		
Cash and cash equivalents (note 11)	241,818	289,065
Derivative financial instruments – assets	1,900	382
Derivative financial instruments – liabilities	111	1,915
<b>Fair Value through Other Comprehensive Income</b>		
Convertible preferred shares	–	10,000
<b>Other Financial Liabilities, Measured at Amortized Cost</b>		
Accounts payable	98,682	72,466
Deferred purchase consideration	–	3,914
Long-term debt (note 14)	258,444	246,175

### 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 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, 2018:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 241,818	\$ 241,818	\$ –	\$ –
Loans receivable	4,125	–	4,125	–
Derivative financial instruments	1,900	–	1,900	–
Deposit guarantee	255	–	255	–
	\$ 248,098	\$ 241,818	\$ 6,280	\$ –
<b>Liabilities</b>				
Derivative financial instruments	111	–	111	–
Long-term debt	235,714	–	235,714	–
	\$ 235,825	\$ –	\$ 235,825	\$ –

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

### 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 denominated 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 amounts are translated into Canadian dollars. As at June 30, 2018, 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 ended June 30, 2018 by approximately \$22.8 million, \$(0.1) million and \$(0.1) 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 approximately \$59.6 million, \$13.1 million and \$46.4 million, respectively, as at June 30, 2018.

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures associated with the Company's foreign currency denominated cash streams and the resulting variability of the Company's income. The 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 US dollar based operations, the Company does not hedge translation exposures.

#### Foreign Exchange Forward Contracts

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



The following table sets out the notional amounts outstanding under foreign exchange contracts, the average contractual exchange rates and the settlement of these contracts as at June 30, 2018:

(in thousands, except weighted average rate amounts)

Canadian dollars sold for US dollars		
Less than one year		<b>C\$ 4,326</b>
Weighted average rate		<b>0.81</b>
US dollars sold for Euros		
Less than one year		<b>US\$ 31,157</b>
Weighted average rate		<b>0.85</b>
Euros sold for US dollars		
Less than one year		<b>€ 17,804</b>
Weighted average rate		<b>1.25</b>
Norwegian Kroners sold for US dollars		
Less than one year		<b>NOK 41,425</b>
Weighted average rate		<b>0.12</b>

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

As at June 30, 2018, the Company had notional amounts of \$79.4 million of foreign exchange forward contracts outstanding (December 31, 2017 – \$83.8 million) with the fair value of the Company's net gain from all foreign exchange forward contracts totalling \$1.8 million (December 31, 2017 – \$1.5 million net loss).

#### 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, 2018, a loss of \$12.3 million on the translation of the long-term debt was transferred to other comprehensive income to offset the gain 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, 2018.

### Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at June 30, 2018:

(in thousands of Canadian dollars)	Non-interest Bearing	Floating Rate	Fixed Interest Rate	Total
<b>Financial Assets</b>				
Cash equivalents	\$ –	\$ –	\$ 107,786	\$ 107,786
Loans receivable	43	4,082	–	4,125
	\$ 43	\$ 4,082	\$ 107,786	\$ 111,911
<b>Financial Liabilities</b>				
Standard letters of credit for performance, bid and surety bonds	\$ 66,018	\$ –	\$ –	\$ 66,018
Long-term debt	–	–	258,444	258,444
	\$ 66,018	\$ –	\$ 258,444	\$ 324,462

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, 2018, there was no customer who generated more than 10% of total consolidated revenue (six-month period ended June 30, 2017 – one customer generated approximately 14.2% of total consolidated revenue). As at June 30, 2018, no customer accounted for more than 10% of the Company's total trade accounts receivable (as at December 31, 2017 – one customer accounted for 22% of 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, 2018, the Company had cash and cash equivalents totalling \$241.8 million (December 31, 2017 – \$289.1 million) and had unutilized lines of credit available to use of \$417.1 million (December 31, 2017 – \$389.1 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, 2018, 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 offers 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;
- Pipeline and Pipe Services Products, which includes Canusa-CPS that manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications; and Dhatec that designs and assembles engineered pipe logistics products and services;
- Shaw Pipeline Services, which provides ultrasonic and radiographic pipeline girth weld inspection services to pipeline operators and construction contractors worldwide for both onshore and offshore pipelines;
- Flexpipe Systems, which manufactures spoolable and stick composite pipe systems and high density polyethylene pipe used for oil and gas gathering, water disposal, carbon dioxide injection pipelines and other applications requiring corrosion resistance and high pressure capabilities;
- Guardian, which 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;
- Shawcor Inspection Services, which provides non-destructive testing services for new oil and gas gathering pipelines and oilfield 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 comprises the Connection Systems division. The Connection Systems division was formed from the 2015 integration of :

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

### Financial and Corporate

The financial and corporate division of Shawcor 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	
	2018	2017 <sup>(a)</sup>	2018	2017	2018	2017	2018	2017	2018	2017 <sup>(a)</sup>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue										
External	<b>303,599</b>	334,623	<b>54,288</b>	48,948	–	–	–	–	<b>357,887</b>	383,571
Inter-segment	<b>60</b>	79	<b>324</b>	130	–	–	<b>(384)</b>	(209)	–	–
Total Revenue	<b>303,659</b>	334,702	<b>54,612</b>	49,078	–	–	<b>(384)</b>	(209)	<b>357,887</b>	383,571
Income (Loss) from operations	<b>9,396</b>	26,971	<b>8,736</b>	7,945	<b>(2,450)</b>	(6,893)	–	–	<b>15,682</b>	28,023
Income (Loss) before income taxes	<b>5,698</b>	19,376	<b>7,865</b>	7,133	<b>(572)</b>	(3,888)	–	–	<b>12,991</b>	22,621
Additions to property, plant and equipment, net of disposals	<b>20,626</b>	10,766	<b>1,300</b>	740	<b>418</b>	2	–	–	<b>22,344</b>	11,508

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. Please see Note 3 for further details.

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	
	2018	2017 <sup>(a)</sup>	2018	2017	2018	2017	2018	2017	2018	2017 <sup>(a)</sup>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue										
External	<b>603,381</b>	643,590	<b>105,025</b>	100,041	–	–	–	–	<b>708,406</b>	743,631
Inter-segment	<b>244</b>	474	<b>594</b>	404	–	–	<b>(838)</b>	(878)	–	–
Total Revenue	<b>603,625</b>	644,064	<b>105,619</b>	100,445	–	–	<b>(838)</b>	(878)	<b>708,406</b>	743,631
Income (Loss) from operations	<b>18,293</b>	51,909	<b>17,604</b>	17,592	<b>(8,778)</b>	(15,340)	–	–	<b>27,119</b>	54,161
Income (Loss) before income taxes	<b>7,948</b>	34,786	<b>15,856</b>	15,908	<b>(2,158)</b>	(10,259)	–	–	<b>21,646</b>	40,435
Additions to property, plant and equipment, net of disposals	<b>27,476</b>	19,105	<b>3,138</b>	1,439	<b>763</b>	160	–	–	<b>31,377</b>	20,704

	June 30 2018	December 31 2017 <sup>(a)</sup>	June 30 2018	December 31 2017	June 30 2018	December 31 2017	June 30 2018	December 31 2017	June 30 2018	December 31 2017 <sup>(a)</sup>
Goodwill	<b>324,570</b>	311,619	<b>18,136</b>	17,772	–	–	–	–	<b>342,706</b>	329,391
Total Assets	<b>1,983,108</b>	1,825,811	<b>136,553</b>	120,933	<b>1,276,918</b>	1,272,387	<b>(1,682,318)</b>	(1,521,130)	<b>1,714,261</b>	1,698,001
Total Liabilities	<b>890,606</b>	886,915	<b>(70,925)</b>	(71,292)	<b>157,218</b>	144,786	<b>(319,605)</b>	(307,192)	<b>657,294</b>	653,217

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. Please see Note 3 for further details.

## 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 and six-month periods ended June 30, 2018 were \$0.9 and \$1.8 million (three and six-month periods ended June 30, 2017 – \$1.3 and \$2.6 million). The Company's costs for the defined contribution pension arrangements for the three and six-month periods ended June 30, 2018 was \$2.8 and \$5.5 million (three and six-month periods ended June 30, 2017 – \$2.7 and \$5.2 million).

## 7 Finance Costs

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

(in thousands of Canadian dollars)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Interest income	\$ (789)	\$ (733)	\$ (1,630)	\$ (967)
Interest expense, other	1,502	1,372	2,794	2,964
Interest expense on long-term debt	2,271	4,144	4,486	8,414
<b>Finance Costs – net</b>	<b>\$ 2,984</b>	<b>\$ 4,783</b>	<b>\$ 5,650</b>	<b>\$ 10,411</b>

## 8 Income Taxes

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

	Six Months Ended	
	June 30,	
	2018	2017 <sup>(a)</sup>
	%	%
Expected statutory income tax rate	26.8	26.8
Tax rate differential on earnings of foreign subsidiaries	4.2	(7.4)
Benefit of previously unrecognized tax losses	(31.9)	(8.2)
Deferred tax not recognized	22.2	22.1
Adjustment to prior year provisions	(7.8)	(5.4)
Non-deductible amounts	12.8	(9.0)
Withholding taxes	3.3	3.5
State tax and other	(1.2)	0.9
<b>Effective Income Tax Rate</b>	<b>28.4</b>	<b>23.3</b>

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. Please see Note 3 for further details.

## 9 Earnings 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)	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2018</b>	2017 <sup>(a)</sup>	<b>2018</b>	2017 <sup>(a)</sup>
<b>Net income used to calculate EPS</b>				
Net income (attributable to shareholders of the Company) for the period	\$ <b>9,914</b>	\$ 15,877	\$ <b>15,124</b>	\$ 31,270
<b>Weighted average number of shares</b>				
outstanding – basic (000s)	<b>70,058</b>	69,932	<b>70,037</b>	69,916
Dilutive effect of share-based compensation	<b>90</b>	101	<b>143</b>	108
<b>Weighted average number of shares</b>				
outstanding – diluted (000s)	<b>70,148</b>	70,033	<b>70,180</b>	70,024
<b>Basic EPS</b>				
	\$ <b>0.14</b>	\$ 0.23	\$ <b>0.22</b>	\$ 0.45
<b>Diluted EPS</b>				
	\$ <b>0.14</b>	\$ 0.23	\$ <b>0.22</b>	\$ 0.45

(a) Restated due to the adoption of IFRS 15 that became effective as at January 1, 2018, but was implemented retrospectively to January 1, 2017. Please see Note 3 for further details.

## 10 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, 2018		Year Ended December 31, 2017	
	Total Shares	Weighted Average Exercise Price	Total Shares	Weighted Average Exercise Price
<b>Balance Outstanding – Beginning of Period</b>	<b>1,195,385</b>	<b>\$ 33.06</b>	1,173,080	\$ 32.02
Granted	248,900	25.22	163,400	37.40
Exercised	(92,800)	15.51	(23,095)	26.90
Expired	(41,660)	28.88	(118,000)	29.83
<b>Balance Outstanding - End of Period</b>	<b>1,309,825</b>	<b>\$ 32.96</b>	1,195,385	\$ 33.06
<b>Options exercisable</b>	<b>768,685</b>	<b>\$ 34.89</b>	739,005	\$ 32.34

June 30, 2018	Options Outstanding		Options Exercisable		
Range of Exercise Price	Outstanding as at June 30, 2018	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at June 30, 2018	Weighted Average Exercise Price
\$15.01 to \$20.00	68,520	0.50	\$ 15.51	68,520	\$ 15.51
\$25.01 to \$30.00	392,460	8.01	25.69	68,460	26.51
\$30.01 to \$35.00	224,000	3.99	32.69	188,000	32.78
\$35.01 to \$40.00	332,145	5.59	37.04	180,285	36.93
\$40.01 to \$45.00	246,300	4.08	41.69	226,300	41.63
\$45.01 to \$50.00	46,400	2.06	45.73	37,120	45.73
	<b>1,309,825</b>	<b>5.37</b>	<b>\$ 32.95</b>	<b>768,685</b>	<b>\$ 34.89</b>

December 31, 2017	Options Outstanding			Options Exercisable		
Range of Exercise Price	Outstanding as at December 31, 2017	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as at December 31, 2017	Weighted Average Exercise Price	
\$15.01 to \$20.00	161,320	1.00	\$ 15.51	161,320	\$ 15.51	
\$25.01 to \$30.00	174,600	8.00	26.51	33,080	26.51	
\$30.01 to \$35.00	224,000	4.80	32.69	188,000	32.78	
\$35.01 to \$40.00	342,765	6.79	37.00	131,725	36.95	
\$40.01 to \$45.00	246,300	5.00	41.69	197,040	41.69	
\$45.01 to \$50.00	46,400	6.00	45.73	27,840	45.73	
	1,195,385	5.41	\$ 33.06	739,005	\$ 32.34	

The Board of Directors approved the granting of 248,900 stock options during the six-month period ended June 30, 2018 (June 30, 2017 – 163,400) under the 2001 Employee Plan. The total fair value of the stock options granted during the six-month period ended June 30, 2018 was \$1.3 million (six-month period ended June 30, 2017 – \$1.3 million) and was calculated using the Black-Scholes pricing model with the following assumptions:

	Six Months Ended June 30,	
	2018	2017
Weighted average share price	\$ 25.22	\$ 37.40
Exercise price	\$ 25.22	\$ 37.40
Weighted average expected life of options	6.25	6.25
Weighted average expected stock price volatility	27.0%	28.46%
Weighted average expected dividend yield	2.409%	1.604%
Weighted average risk-free interest rate	2.04%	1.45%

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, 2018, included in selling, general and administrative expenses, was \$0.7 million (six-month period ended June 30, 2017 – \$0.7 million).



## Stock Options with Tandem Share Appreciation Rights

	Six Months Ended June 30, 2018		Year Ended December 31, 2017	
	Total Shares	Weighted Average Fair Value <sup>(a)</sup>	Total Shares	Weighted Average Fair Value
<b>Balance Outstanding - Beginning of Period</b>	<b>407,100</b>	<b>\$ 10.05</b>	367,300	\$ 10.23
Granted	85,200	5.33	44,800	8.61
Exercised	–	–	(5,000)	10.30
Expired/Cancelled	(108,900)	8.67	–	–
<b>Balance Outstanding - End of Period</b>	<b>383,400</b>	<b>\$ 9.39</b>	407,100	\$ 10.05
<b>Options exercisable</b>	<b>210,380</b>	<b>\$ 10.42</b>	194,760	\$ 10.53

(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, 2018 is \$1.2 million (December 31, 2017 – \$1.5 million), all of which is included in current and non-current other liabilities on the interim consolidated balance sheets.

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

### **LTIP**

The LTIP includes the existing stock option plan discussed above, 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. Compensation cost is recognized on a straight-line basis over the vesting period. All units granted under the VGP will be classified as liability instruments in accordance with IFRS as their terms require that they be settled in cash.

The VGP liability as at June 30, 2018 is \$8.1 million (December 31, 2017 – \$4.3 million).

### ESUP

The ESUP authorizes the Board to grant awards of restricted share units ("RSUs") and performance share units ("PSUs") to employees of the Company as a form of incentive compensation. All RSUs and PSUs are to be settled with common shares and are valued on the basis of the underlying weighted average trading price of the common shares over the five trading days preceding the grant date. The valuation is not subsequently adjusted for changes in the market price of the common shares prior to the settlement of the award. Each RSU and PSU granted under the ESUP represents one common share. The ESUP provides that the maximum number of common shares that are reserved for issuance from time to time shall be fixed at 1,000,000 common shares. The RSUs vest in two tranches over a period of one to five years and four to seven years, respectively and become 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, 2018		Year Ended December 31, 2017	
	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>598,037</b>	<b>\$ 32.02</b>	541,441	\$ 31.79
Granted	71,247	22.52	91,364	32.04
Exercised	(30,261)	31.94	(19,951)	28.32
Forfeited/Cancelled	(15,385)	31.63	(14,817)	28.73
<b>Balance Outstanding - End of Period</b>	<b>623,638</b>	<b>\$ 30.95</b>	598,037	\$ 32.02
<b>RSUs/PSUs exercisable</b>	<b>280,753</b>	<b>\$ 33.49</b>	237,895	\$ 33.32

(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, 2018 is \$0.3 million (December 31, 2017 – \$0.1 million).

## 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.

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

	Six Months Ended June 30, 2018		Year Ended December 31, 2017	
	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>191,046</b>	<b>\$ 33.86</b>	148,427	\$ 35.15
Granted	25,370	24.77	42,619	29.36
Exercised	(31,476)	25.11	–	–
<b>Balance Outstanding - End of Period</b>	<b>184,940</b>	<b>\$ 34.10</b>	191,046	\$ 33.86

(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.

The mark-to-market liability for the DSUs as at June 30, 2018 is \$4.7 million (December 31, 2017 – \$5.2 million), all of which is included in current and non-current other liabilities on the interim 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,	
	2018	2017	2018	2017
Stock option expense	\$ 329	\$ 348	\$ 651	\$ 677
SAR expense (recovery)	201	(1,468)	(333)	(948)
VGP expense	2,167	1,127	4,211	1,354
RSU expense	811	1,008	1,729	1,978
PIP expense	68	5	83	28
DSU expense (recovery)	514	(1,635)	272	(890)
Total incentive-based compensation expense (recovery)	\$ 4,090	\$ (615)	\$ 6,613	\$ 2,199

## 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, 2018	December 31, 2017
Cash	\$ 134,032	\$ 247,136
Cash equivalents	107,786	41,929
<b>Total</b>	<b>\$ 241,818</b>	<b>\$ 289,065</b>

## 12 Loans Receivable

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

(in thousands of Canadian dollars)	<b>June 30 2018</b>	December 31 2017
<b>Current</b>		
Notes receivable	\$ 1,729	\$ 2,448
<b>Non-current</b>		
Notes receivable <sup>(a)</sup>	\$ 2,396	\$ 2,283
<b>Total</b>	<b>\$ 4,125</b>	<b>\$ 4,731</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 June 30, 2018, as set out in the loan agreement terms. As at June 30, 2018, the amount of the notes receivable was US\$3,100 (December 31, 2017 – US\$3,726).

## 13 Credit Facilities

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

(in thousands of Canadian dollars)	<b>June 30 2018</b>	December 31 2017
Standard letters of credit for performance, bid and surety bonds (note 15)	\$ 66,018	\$ 71,175
Total utilized credit facilities	<b>66,018</b>	71,175
Total available credit facilities <sup>(a)</sup>	<b>483,108</b>	460,251
<b>Unutilized Credit Facilities</b>	<b>\$ 417,090</b>	<b>\$ 389,076</b>

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

The Company pays a floating interest rate on this 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 Credit Facility. Specifically, the Company is required to maintain an Interest Coverage Ratio (defined as EBITDA plus rental payments divided by interest expense plus rental payments) of more than 2.50 to 1.00 and a Leverage Ratio (defined as Total Debt to EBITDA) of less than 3.00 to 1.00.

The Company was in compliance with Interest Coverage Ratio and Leverage Ratio as at June 30, 2018.

## 14 Long-term Debt

The total long-term debt balance as at June 30, 2018 is \$258.4 million (US\$196.8 million) (December 31, 2017 – \$246.2 million (US\$196.8 million)). The long-term debt has 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. The Company was in compliance with these covenants as at June 30, 2018.

## **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 \$66.0 million as at June 30, 2018 (December 31, 2017 – \$71.2 million) for support of its bonds. In addition, as at June 30, 2018, the Company had \$66.2 million of outstanding surety bonds through insurance companies (December 31, 2017 – \$48.4 million).

## 16 Share Capital

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, 2017	69,940,590
Issued on exercise of stock options	92,800
Issued on exercise of RSUs	30,261
<b>Balance, June 30, 2018</b>	<b>70,063,651</b>

<b>Stated Value:</b>	
Balance, December 31, 2017	\$ 704,956
Issued on exercise of stock options	1,440
Compensation cost on exercised stock options	558
Compensation cost on exercised RSUs	1,004
<b>Balance, June 30, 2018</b>	<b>\$ 707,958</b>

(in thousands of Canadian dollars)	
<b>Number of Shares</b>	
Balance, December 31, 2016	69,892,544
Issued on exercise of stock options	28,095
Issued on exercise of RSUs	19,951
Balance, December 31, 2017	69,940,590

<b>Stated Value:</b>	
Balance, December 31, 2016	\$ 703,316
Issued on exercise of stock options	761
Compensation cost on exercised stock options	278
Compensation cost on exercised RSUs	601
Balance, December 31, 2017	\$ 704,956

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

Dividends declared and paid were as follows:

(in thousands of Canadian dollars, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Dividends declared and paid to shareholders	\$ 10,510	\$ 10,477	\$ 21,016	\$ 20,964
Dividends declared and paid per share	\$ 0.15	\$ 0.15	\$ 0.30	\$ 0.30