Shawcor Ltd.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

June 30, 2019

Shawcor Ltd.

Interim Consolidated Statements of Income (Unaudited)

(in thousands of Canadian dollars, except per share amounts)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018[a]	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018[a]
Revenue				
Sale of products	**$ 179,881**	$ 159,119	**$ 318,126**	$ 314,036
Rendering of services	**231,908**	194,249	**443,241**	390,099
	411,789	353,368	**761,367**	704,135
Cost of Goods Sold and Services Rendered	**294,369**	239,427	**545,743**	473,342
Gross Profit	**117,420**	113,941	**215,624**	230,793
Selling, general and administrative expenses	**88,213**	79,965	**156,090**	159,319
Research and development expenses	**3,385**	3,290	**6,695**	6,394
Foreign exchange losses (gains)	**1,051**	(4,534)	**(174)**	(5,381)
Amortization of property, plant and equipment	**14,773**	17,142	**26,706**	37,081
Amortization of intangible assets	**8,548**	4,613	**13,172**	9,150
Amortization of right-of-use assets	**4,682**	–	**8,733**	–
Gain on sale of land (note 9)	**(32,608)**	–	**(32,608)**	–
Income from Operations	**29,376**	13,465	**37,010**	24,230
Income from investments in associates (note 10)	**9,485**	293	**8,742**	177
Finance costs, net (note 11)	**(5,483)**	(2,985)	**(8,940)**	(5,651)
Cost associated with repayment of long-term debt and credit facilities (note 17)	**–**	–	**(12,308)**	–
Net monetary loss (note 4)	**(1,236)**	(748)	**(1,887)**	(1,223)
Income before Income Taxes	**32,142**	10,025	**22,617**	17,533
Income tax (recovery) expense (note 12)	**(18,750)**	2,478	**(19,354)**	6,025
Net Income	**$ 50,892**	$ 7,547	**$ 41,971**	$ 11,508
Net Income Attributable to:				
Shareholders of the Company	**$ 51,044**	$ 7,308	**$ 41,970**	$ 11,137
Non-controlling interests	**(152)**	239	**1**	371
Net Income	**$ 50,892**	$ 7,547	**$ 41,971**	$ 11,508
Earnings per Share ("EPS") (note 13)				
Basic	**$ 0.73**	$ 0.10	**$ 0.60**	$ 0.16
Diluted	**$ 0.73**	$ 0.10	**$ 0.60**	$ 0.16
Weighted Average Number of Shares Outstanding (000s) (note 13)				
Basic	**70,140**	70,058	**70,130**	70,037
Diluted	**70,398**	70,148	**70,389**	70,180

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 4 for further details.

Shawcor Ltd.

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

(in thousands of Canadian dollars)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018[a]	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018[a]
Net Income	**$ 50,892**	$ 7,547	**$ 41,971**	$ 11,508
Other Comprehensive (Loss) Income to be Reclassified to Net Income in Subsequent Periods				
Exchange differences on translation of foreign operations	**(18,349)**	(8,195)	**(34,833)**	14,236
Other comprehensive loss attributable to investments in associates	**(86)**	(166)	**(15)**	(125)
Cash flow hedge gains	**–**	–	**3,869**	–
Net Other Comprehensive (Loss) Income to be Reclassified to Net Income in Subsequent Periods	**(18,435)**	(8,361)	**(30,979)**	14,111
Other Comprehensive (Loss) Income not to be Reclassified to Net Income in Subsequent Periods				
Actuarial (loss) gain on defined benefit plans	**(40)**	36	**(48)**	26
Income tax recovery (expense)	**34**	(10)	**34**	(6)
Net Other Comprehensive (Loss) Income not to be Reclassified to Net Income in Subsequent Periods	**(6)**	26	**(14)**	20
Other Comprehensive (Loss) Income, Net of Income Tax	**(18,441)**	(8,335)	**(30,993)**	14,131
Total Comprehensive Income (Loss)	**$ 32,451**	$ (788)	**$ 10,978**	$ 25,639
Comprehensive Income Attributable to:				
Shareholders of the Company	**$ 32,367**	$ 134	**$ 11,106**	$ 25,987
Non-controlling interests	**84**	(922)	**(128)**	(348)
Total Comprehensive Income (Loss)	**$ 32,451**	$ (788)	**$ 10,978**	$ 25,639

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 4 for further details.

Shawcor Ltd.
Interim Consolidated Balance Sheets (Unaudited)

(in thousands of Canadian dollars)		**June 30, 2019**		December 31, 2018[a]
ASSETS				
Current Assets				
Cash and cash equivalents (note 15)	**$**	**122,410**	$	217,264
Short-term investments		**–**		2,046
Loans receivable (note 16)		**1,701**		2,492
Accounts receivable		**282,038**		241,497
Contract assets		**57,751**		31,404
Income taxes receivable		**32,223**		27,476
Inventories		**181,063**		136,997
Prepaid expenses		**12,620**		22,116
Derivative financial instruments (note 6)		**22**		1,102
Total current assets		**689,828**		682,394
Non-current Assets				
Loans receivable (note 16)		**–**		545
Property, plant and equipment		**448,295**		442,941
Right-of-use assets		**73,494**		–
Intangible assets		**327,069**		155,454
Investments in associates		**9,775**		30,219
Deferred income tax assets		**27,373**		31,290
Other assets		**6,661**		8,880
Goodwill		**430,172**		350,402
Total non-current assets		**1,322,839**		1,019,731
TOTAL ASSETS	**$**	**2,012,667**	$	1,702,125
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities	**$**	**222,280**	$	206,860
Provisions		**22,186**		23,924
Income taxes payable		**19,675**		26,139
Derivative financial instruments (note 6)		**451**		226
Contract liabilities		**43,047**		23,603
Lease liabilities (note 3)		**19,487**		1,155
Other liabilities		**12,305**		7,339
Total current liabilities		**339,431**		289,246
Non-current Liabilities				
Long-term debt (note 17)		**474,070**		267,781
Lease liabilities (note 3)		**59,121**		10,388
Provisions		**25,868**		34,979
Employee future benefits		**14,890**		15,190
Deferred income tax liabilities		**29,296**		4,632
Other liabilities		**11,117**		10,259
Total non-current liabilities		**614,362**		343,229
Total liabilities		**953,793**		632,475
Equity				
Share capital (note 19)		**710,174**		708,833
Contributed surplus		**31,155**		30,187
Retained earnings		**289,336**		271,429
Non-controlling interests		**5,290**		5,418
Accumulated other comprehensive income		**22,919**		53,783
Total equity		**1,058,874**		1,069,650
TOTAL LIABILITIES AND EQUITY	**$**	**2,012,667**	$	1,702,125

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 4 for further details.

ShawCor Ltd.

Interim Consolidated Statements of Changes in Equity (Unaudited)

(in thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings[(a)]	Non-controlling Interests	Accumulated Other Comprehensive Income (Loss)	Total Equity
	$	$	$	$	$	$
Balance – December 31, 2018	708,833	30,187	271,429	5,418	53,783	1,069,650
Adjustment for IFRS 16–*Leases* (note 3)	–	–	**(3,023)**	–	–	**(3,023)**
Adjusted balance – January 1, 2019	**708,833**	**30,187**	**268,406**	**5,418**	**53,783**	**1,066,627**
Net income	**–**	**–**	**41,970**	**1**	**–**	**41,971**
Other comprehensive loss	–	–	–	**(129)**	**(30,864)**	**(30,993)**
Comprehensive income (loss)	**–**	**–**	**41,970**	**(128)**	**(30,864)**	**10,978**
Issued on exercise of stock options	**357**	**–**	**–**	**–**	**–**	**357**
Compensation cost on exercised options	**139**	**(139)**	**–**	**–**	**–**	**–**
Compensation cost on exercised Restricted Share Units	**845**	**(845)**	**–**	**–**	**–**	**–**
Share-based compensation expense	**–**	**1,952**	**–**	**–**	**–**	**1,952**
Dividends declared and paid to shareholders (note 19)	**–**	**–**	**(21,040)**	**–**	**–**	**(21,040)**
Balance – June 30, 2019	**710,174**	**31,155**	**289,336**	**5,290**	**22,919**	**1,058,874**
Balance – December 31, 2017	704,956	27,651	302,206	5,848	4,123	1,044,784
Hyperinflation adjustments for Argentina[(a)] (note 4)	–	–	(14,624)	(369)	19,307	4,314
Adjusted balance – January 1, 2018	704,956	27,651	287,582	5,479	23,430	1,049,098
Net income	–	–	11,137	371	–	11,508
Other comprehensive (loss) income	–	–	–	(719)	14,850	14,131
Comprehensive income (loss)	–	–	11,137	(348)	14,850	25,639
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 19)	–	–	(21,016)	–	–	(21,016)
Balance – June 30, 2018	707,958	28,469	277,703	5,131	38,280	1,057,541

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 4 for further details.

ShawCor Ltd.

Interim Consolidated Statements of Cash Flows (Unaudited)

(in thousands of Canadian dollars)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018[(a)]	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018[(a)]
Operating Activities				
Net income	**$ 50,892**	$ 7,547	**$ 41,971**	$ 11,508
Add (deduct) items not affecting cash				
Amortization of property, plant and equipment	**14,773**	17,142	**26,706**	37,081
Amortization of intangible assets	**8,548**	4,613	**13,172**	9,150
Amortization of right-of-use assets	**4,682**	–	**8,733**	–
Amortization of long-term prepaid expenses	**94**	96	**199**	91
Impact of inventory revaluation adjustment (note 5)	**3,388**	–	**3,388**	–
Interest expense on right-of-use assets leases	**830**	–	**1,560**	–
Decommissioning liabilities (recovery) expenses	**(42)**	37	**(1,623)**	210
Other provision expenses (recovery)	**4,971**	(3,380)	**4,291**	(233)
Share-based compensation and incentive-based compensation (note 14)	**4,304**	4,090	**9,805**	6,613
Deferred income taxes	**(21,324)**	(469)	**(24,086)**	(2,453)
(Gain) loss on disposal of property, plant and equipment	**(33)**	252	**(313)**	189
Gain on sale of land (note 9)	**(32,608)**	–	**(32,608)**	–
Unrealized loss (gain) on derivative financial instruments	**205**	(1,791)	**1,305**	(3,322)
Income from investments in associates	**(9,485)**	(293)	**(8,742)**	(177)
Cost associated with repayment of long-term debt and credit facilities	**–**	–	**5,353**	–
Other	**–**	–	–	(4,112)
Settlement of decommissioning liabilities	**(589)**	–	**(737)**	–
Settlement of other provisions	**(9,587)**	(2,276)	**(10,943)**	(6,158)
Net change in employee future benefits	**(475)**	(142)	**(286)**	(193)
Change in non-cash working capital and foreign exchange	**(39,486)**	3,299	**(40,142)**	(48,941)
Cash (Used in) Provided by Operating Activities	**$ (20,942)**	$ 28,725	**$ (2,997)**	$ (747)
Investing Activities				
Decrease in loans receivable (note 16)	**575**	686	**1,212**	841
Decrease in short-term investments	**5,148**	–	**2,046**	–
Purchase of property, plant and equipment	**(9,115)**	(22,738)	**(24,551)**	(32,215)
Proceeds on disposal of property, plant and equipment	**40,278**	142	**40,671**	649
Decrease (increase) in other assets	**135**	(3,235)	**238**	(2,991)
Proceeds from redemption of investment in associate (note 10)	**29,171**	–	**29,171**	–
Business acquisition net of cash acquired (note 5)	**(291,477)**	–	**(291,477)**	–
Cash Used in Investing Activities	**$ (225,285)**	$ (25,145)	**$ (242,690)**	$ (33,716)
Financing Activities				
Decrease in bank indebtedness	**(18,763)**	–	**(17,608)**	–
Increase of long-term debt (note 17)	**305,155**	–	**204,693**	–
Repayment of lease liabilities	**(5,193)**	(247)	**(13,439)**	(546)
Issuance of shares (note 19)	**1**	109	**357**	1,440
Dividends paid to shareholders (note 19)	**(10,520)**	(10,510)	**(21,040)**	(21,016)
Cash Provided by (Used in) Financing Activities	**$ 270,680**	$ (10,648)	**$ 152,963**	$ (20,122)
Effect of Foreign Exchange on Cash and Cash Equivalents	**59**	507	**(2,130)**	7,338
Net increase (decrease) in Cash and Cash Equivalents	**24,512**	(6,561)	**(94,854)**	(47,247)
Cash and Cash Equivalents – Beginning of Period	**97,898**	248,379	**217,264**	289,065
Cash and Cash Equivalents – End of Period	**$ 122,410**	$ 241,818	**$ 122,410**	$ 241,818

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 4 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 87 manufacturing and service facilities located around the world. Further information as it pertains to the nature of operations is set out in note 7.

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

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 consolidated 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, 2018 ("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 judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement 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, 2019 were authorized for issue by the Company's Board of Directors ("Board") on August 8, 2019.

2 Accounting Standards Issued but Not Yet Applied

Definition of a Business - Amendments to IFRS 3

The IASB issued amendments to the definition of a business in IFRS 3, *Business Combinations* ("IFRS 3") to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed. The Company has not yet determined the impact of the amendments to IFRS 3 on its interim consolidated financial statements.

3 New Accounting Standards Adopted

IFRS 16, *Leases*

IFRS 16, *Leases* ("IFRS 16") issued by the IASB in January 2016, supersedes IAS 17, *Leases* ("IAS 17") (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 consolidated financial statements of both lessees and lessors. This change in accounting policy is required by the new IFRS standard and is made in accordance with the transitional provisions contained within the standard. This standard eliminates the classification of leases as either an operating or finance lease for a lessee, and instead, all leases are capitalized by recognizing the present value of lease payments and presenting them as lease assets. The Company has elected to use the exemptions in the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. Lease payments on short-term leases and leases of low value assets are recognized as expenses on a straight-line basis over the lease term. The service component of a lease agreement is separated from the value of the asset and is not reported on the consolidated balance sheets; however, there is a practical expedient to combine lease and non-lease components. Purchase, renewal and termination options which are reasonably certain of being exercised are also included in the measurement of the lease liability. Lease payment liabilities do not include variable lease payments other than those that depend on an index or rate. The most significant effect of the new requirements is the recognition of the right-of-use ("ROU") leased assets and their corresponding lease obligations on the consolidated balance sheets.

The Company used the following practical expedients and recognition exemptions when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Used the exemption to not recognize ROU assets and liabilities for leases with a remaining lease term of less than 12 months as at January 1, 2019;
- Excluded initial direct costs from measuring the ROU assets at the date of initial application;
- Grandfathered the definition of a lease for existing contracts at the date of initial application;
- Used hindsight in determining lease term at the date of initial application;
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application; and
- Used a portfolio application for leases with similar characteristics, such as vehicle and equipment leases.

The Company has completed its implementation plan and process for reviewing its lease contracts. A software subscription system has been obtained to assist the Company in compiling the lease information and calculating the related accounting impacts to comply with the requirements of the standard and manage its lease arrangements. On initial adoption, the Company applied the standard using the modified retrospective approach, which does not require a restatement of prior period financial information as it recognizes the cumulative effect of applying the standard to prior periods as an adjustment to opening retained earnings as at January 1, 2019.

The adoption of IFRS 16 resulted in the recognition of operating leases, mainly related to land and buildings. The Company recorded ROU assets of $58.9 million, lease liabilities of $62.2 million and a reduction of shareholders' equity of $3.0 million, as at January 1, 2019.

The Company recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term. ROU assets are subject to impairment.

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments and variable lease payments that depend on an index or a rate less any lease incentives. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, such as a change in the lease term, a change in the fixed lease payments or a change in the assessment to purchase the underlying asset.

The incremental borrowing rate used to determine the present value of the Company's lease liabilities is a critical accounting estimate. The measurement of the Company's lease liabilities depends on the interest rate implicit in the lease used to discount the remaining lease payments. If the interest rate implicit in the lease cannot be readily determined, the lease payments are discounted using the Company's incremental borrowing rate. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over a similar term and security, the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment. Significant assumptions are required to be made on the basis for which the rate was derived. These assumptions are considered to be a key source of estimation uncertainty. When measuring the lease liabilities, the Company discounted lease payments using the incremental borrowing rate at January 1, 2019 based on the geographical location of the leased assets. This resulted in the use of an incremental borrowing rate ranging from 2.3% up to 33.1% for the hyperinflationary environment of Argentina.

The following table sets forth the carrying amounts of the Company's ROU assets and lease liabilities and the movements for the six months ended June 30:

	ROU assets				
(in thousands of Canadian dollars)	**Real Estate Property**	**Vehicles**	**Equipment**	**Total**	**Lease liabilities**
	$	**$**	**$**	**$**	**$**
As at January 1, 2019	**56,976**	**816**	**1,136**	**58,928**	**62,212**
Finance lease reclassified to ROU assets on January 1, 2019	**5,234**	**–**	**2,752**	**7,986**	**11,081**
Addition [(a)]	**16,351**	**149**	**1,016**	**17,516**	**18,707**
ROU interest expense	**–**	**–**	**–**	**–**	**1,560**
Depreciation expense	**(7,984)**	**(178)**	**(571)**	**(8,733)**	**–**
Disposal	**(88)**	**–**	**–**	**(88)**	**(3,463)**
Payments	**–**	**–**	**–**	**–**	**(9,977)**
Foreign exchange difference	**(2,084)**	**(46)**	**15**	**(2,115)**	**(1,512)**
As at June 30, 2019	**68,405**	**741**	**4,348**	**73,494**	**78,608**

(a) Addition is primarily due to the acquisition of ZCL Composite Inc.

Set out below, are the amounts recognized in the Interim Consolidated Statement of Income for the three months and six months ended June 30:

(in thousands of Canadian dollars)	**Three Months Ended June 30, 2019**	**Six Months Ended June 30, 2019**
Depreciation expense - ROU assets	**$ 4,682**	$ **8,733**
Interest expense on lease liabilities	**830**	**1,560**
Rent expense – short-term and low value leases	**2,875**	**5,794**
Rent expense – variable lease payments	**706**	**1,438**
Total	**$ 9,093**	$ **17,525**

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 performed an impact assessment of the amendment to IAS 28 and determined that there was no material impact of adopting this standard on its interim consolidated financial statements.

IFRIC 23, *Uncertainty over Income Tax Treatments*

In June 2017, the IASB published IFRIC 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23"), 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 judgement 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 performed an impact assessment of all aspects of IFRIC 23 and determined that there was no material impact of adopting this standard on its interim consolidated financial statements.

4 Financial Reporting in Hyperinflationary Economies

In July 2018, the Argentine three-year cumulative rate of inflation for consumer prices and wholesale prices reached a level in excess of 100%. As a result, in accordance with IAS 29, *Financial Reporting in Hyperinflationary Economies* ("IAS 29"), Argentina was considered a hyperinflationary economy, effective January 1, 2018. Accordingly, the presentation of IFRS financial statements includes adjustments and reclassifications for the changes in the general purchasing power of the Argentine peso.

On the application of IAS 29, the Company used the conversion coefficient derived from the consumer price index ("CPI") in the Greater Buenos Aires area published by the National Statistics and Census Institution in Argentina. The CPIs for the current quarter and prior year quarters and the corresponding conversion coefficient were as follows:

Year	Index	Conversion coefficient	CAD/ARS exchange rate
2018 – June	562.37	1.5368	0.045528
2018 – December	707.26	1.2219	0.036229
2019 – March	777.07	1.1122	0.030804
2019 – June	864.23	1.0000	0.030809

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current as at June 30, 2019. Non-monetary assets, liabilities, equity, revenue and expenses (items that are not already expressed in terms of the monetary unit as at June 30, 2019) are restated by applying the index at the end of the current reporting period. The effect of inflation on the Argentine subsidiary's net monetary position is included in the interim consolidated statements of income as a net monetary loss.

The application of IAS 29 results in the adjustment for the loss of purchasing power of the Argentine peso recorded in the consolidated statements of income. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power, which results in a loss on the net monetary position. This loss/gain is derived as the difference resulting from the restatement of non-monetary assets, liabilities and equity.

As per IAS 21, *The Effects of Changes in Foreign Exchange Rates*, all amounts (i.e., assets, liabilities, equity, revenue and expenses) are translated at the closing foreign exchange rate at the date of the most recent consolidated balance sheet, except that comparative amounts are not adjusted for subsequent changes in the price level or subsequent changes in exchange rates. Similarly, in the period during which the functional currency of a foreign subsidiary becomes hyperinflationary and applies IAS 29 for the first time, the parent's consolidated financial statements for the comparative period are not required to be restated for the effects of hyperinflation. The Company restated the first and second quarter of 2018 for comparative purposes, which was permitted but not required under IAS 29.

5 Acquisitions

Acquisition of ZCL Composites Inc.

On April 2, 2019, the Company completed the acquisition of ZCL Composites Inc. ("ZCL") for $10.00 per share in cash and by way of a statutory plan of arrangement. The price per share implied an aggregate fully diluted equity value for ZCL of approximately $308 million excluding cash acquired of $16.7 million. ZCL is North America's largest manufacturer and supplier of fiberglass reinforced plastic underground storage tanks. ZCL has two plants in Canada, four in the US and one in the Netherlands serving the Fuel, Water and Wastewater and Oil and Gas markets and had 2018 revenue of approximately $176 million.

The transaction has been accounted for as a business combination under the acquisition method of accounting. The following table shows the preliminary purchase price allocation for the acquisition of ZCL, and the total consideration paid for the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date:

(in thousands of Canadian dollars)		
Consideration transferred:		
Cash (net of cash acquired of $16,651)	$	291,477
Net assets acquired at fair value:		
Current assets (excluding cash acquired of $16,651)	$	74,842
Property, plant and equipment		29,412
ROU assets		15,652
Intangible assets		191,083
Current liabilities assumed		(47,498)
Deferred income tax liabilities[(a)]		(53,811)
Other non-current liabilities assumed		(11,861)
Total identifiable net assets at fair value	**$**	**197,819**
Goodwill[(b)]		93,658
	$	**291,477**

(a) Deferred income tax liabilities have been recognized in connection with intangible assets, property, plant and equipment, ROU assets and inventory using the substantively enacted tax rates at which the temporary differences were expected to be realized as of the closing date of April 2, 2019.

(b) The balance of goodwill represents the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. None of the goodwill is expected to be deductible for tax purposes. The goodwill acquired represents the acquired human capital and the benefits the Company expects to earn from the acquisition due to expected synergies and other intangible assets that do not meet the criteria for separation as identifiable intangible assets.

6 Financial Instruments

The Company has classified its financial instruments as follows:

(in thousands of Canadian dollars)		**June 30, 2019**		December 31, 2018
Measured at Amortized Cost				
Loans receivable (note 16)	**$**	**1,701**	$	3,037
Trade accounts receivable, net		**244,632**		210,009
Deposit guarantee		**237**		261
Fair Value through Profit or Loss				
Cash and cash equivalents		**122,410**		217,264
Short-term investments		**–**		2,046
Derivative financial instruments – assets		**22**		1,102
Derivative financial instruments – liabilities		**451**		226
Other Financial Liabilities, Measured at Amortized Cost				
Accounts payable		**110,152**		95,794
Long-term debt (note 17)		**474,070**		–
Senior notes (note 17)		**–**		267,781

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 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, 2019:

(in thousands of Canadian dollars)		**Fair Value**		**Level 1**		**Level 2**		**Level 3**
Assets								
Cash and cash equivalents	**$**	**122,410**	**$**	**122,410**	**$**	**–**	**$**	**–**
Loans receivable		**1,701**		**–**		**1,701**		**–**
Derivative financial instruments		**22**		**–**		**22**		**–**
Deposit guarantee		**237**		**–**		**237**		**–**
	$	**124,370**	**$**	**122,410**	**$**	**1,960**	**$**	**–**
Liabilities								
Long-term debt (note 17)	**$**	**474,070**	**$**	**–**	**$**	**474,070**	**$**	**–**
Derivative financial instruments		**451**		**–**		**451**		**–**
	$	**474,521**	**$**	**–**	**$**	**474,521**	**$**	**–**

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, 2019, 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, 2019 by approximately $25.7 million, $0.8 million and $0.6 million, respectively, prior to foreign exchange forward contract activities. In addition, such fluctuations would impact the Company's consolidated total assets, consolidated total liabilities and consolidated total equity by approximately $57.0 million, $12.4 million and $44.6 million, respectively, as at June 30, 2019.

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 flows 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 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 hedged 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, 2019:

(in thousands, except weighted average rate amounts)	
US dollars sold for Euros	
Less than one year	**US$ 15,976**
Weighted average rate	**0.87**
Euros sold for US dollars	
Less than one year	**€ 15,443**
Weighted average rate	**1.13**
Norwegian kroners sold for US dollars	
Less than one year	**NOK 25,445**
Weighted average rate	**0.12**

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

As at June 30, 2019, the Company had notional amounts of $47.8 million of foreign exchange forward contracts outstanding (December 31, 2018 – $60.3 million) with the fair value of the Company's foreign exchange forward contracts totalling $0.4 million net loss (December 31, 2018 – $0.9 million net gain).

Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at June 30, 2019:

(in thousands of Canadian dollars)	Non-interest Bearing	Floating Rate	Fixed Interest Rate	Total
Financial Assets				
Cash equivalents	$ –	$ –	$ 2,653	$ 2,653
Loans receivable (note 16)	–	1,701	–	1,701
	$ –	$ 1,701	$ 2,653	$ 4,354

(in thousands of Canadian dollars)	Non-interest Bearing	Floating Rate	Fixed Interest Rate	Total
Financial Liabilities				
Standard letters of credit for performance, bid and surety bonds	$ 30,475	$ –	$ –	$ 30,475
Long-term debt (note 17)	–	474,070	–	474,070
	$ 30,475	$ 474,070	$ –	$ 504,545

The Company's interest rate risk arises primarily from the floating rate on loans receivable and long-term debt.

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, 2019 and 2018, there was no customer who generated more than 10% of total consolidated revenue. As at June 30, 2019 and 2018, no customer accounted for more than 10% 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 17 – Long-term Debt and Senior Notes. As at June 30, 2019, the Company had cash and cash equivalents totalling $122.4 million (December 31, 2018 – $217.3 million) and had unutilized lines of credit available to use of $270.9 million (December 31, 2018 – $456.6 million).

7 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 interim consolidated financial statements. Income taxes are managed at a consolidated level and are not allocated to the reportable operating segments.

As at June 30, 2019, 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, 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;
- Composite Production Systems, formerly Flexpipe Systems, which manufactures spoolable and stick composite pipe systems and high density polyethylene ("HDPE") pipe used for oil and gas gathering, water disposal, carbon dioxide injection pipelines and other applications requiring corrosion resistance and high pressure capabilities. Since the acquisition of ZCL Composites, this division also manufactures and supplies fiberglass reinforced plastic underground storage tanks;
- 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 three months ended June 30:

(in thousands of Canadian dollars)	Pipeline and Pipe Services		Petrochemical and Industrial		Financial and Corporate		Eliminations and Adjustments		Total	
	2019	2018[(a)]	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018[(a)]
	$	$	**$**	$	**$**	$	**$**	$	**$**	$
Revenue										
External	**358,261**	299,080	**53,528**	54,288	**–**	–	**–**	–	**411,789**	353,368
Inter-segment	**92**	60	**650**	324	**–**	–	**(742)**	(384)	**–**	–
Total Revenue	**358,353**	299,140	**54,178**	54,612	**–**	–	**(742)**	(384)	**411,789**	353,368
Income (Loss) from operations	**33,568**	8,386	**8,472**	8,736	**(12,664)**	(3,657)	**–**	–	**29,376**	13,465
Income (Loss) before income taxes	**25,428**	6,238	**7,703**	7,865	**(989)**	(4,078)	**–**	–	**32,142**	10,025
Additions to property, plant and equipment, net of disposals	**5,303**	20,626	**559**	1,300	**272**	418	**–**	–	**6,134**	22,344

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	
	2019	2018[(a)]	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018[(a)]
	$	$	**$**	$	**$**	$	**$**	$	**$**	$
Revenue										
External	**653,185**	599,110	**108,182**	105,025	**–**	–	**–**	–	**761,367**	704,135
Inter-segment	**261**	244	**919**	594	**–**	–	**(1,180)**	(838)	**–**	–
Total Revenue	**653,446**	599,354	**109,101**	105,619	**–**	–	**(1,180)**	(838)	**761,367**	704,135
Income (Loss) from operations	**38,121**	16,591	**17,821**	17,604	**(18,932)**	(9,965)	**–**	–	**37,010**	24,230
Income (Loss) before income taxes	**47,466**	7,321	**16,378**	15,856	**(41,227)**	(5,644)	**–**	–	**22,617**	17,533
Additions to property, plant and equipment, net of disposals	**19,580**	27,476	**1,502**	3,138	**375**	763	**–**	–	**21,457**	31,377
	June 30 2019	December 31 2018[(a)]	**June 30 2019**	December 31 2018	**June 30 2019**	December 31 2018	**June 30 2019**	December 31 2018	**June 30 2019**	December 31 2018[(a)]
Goodwill	**412,595**	331,967	**17,577**	18,435	**–**	–	**–**	–	**430,172**	350,402
Total Assets	**2,187,057**	1,757,832	**132,350**	140,866	**1,800,346**	1,319,235	**(2,107,086)**	(1,515,808)	**2,012,667**	1,702,125
Total Liabilities	**865,206**	809,338	**(91,115)**	(78,708)	**177,134**	232,256	**2,568**	(330,411)	**953,793**	632,475

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 4 for further details.

Geographical Segment Revenue Information

The table below sets forth, by geographical region, revenue for the current and the prior year three months ended June 30 for the Pipeline and Pipe Services segment:

	Three Months Ended	
(in thousands of Canadian dollars)	**June 30, 2019**	June 30, 2018[(a)]
North America	**$ 245,461**	$ 199,037
Latin America	**26,252**	28,329
EMAR[(b)]	**77,686**	46,307
Asia Pacific	**8,954**	25,467
Total revenue	**$ 358,353**	$ 299,140

The table below sets forth, by geographical region, revenue for the current and the prior year six months ended June 30 for the Pipeline and Pipe Services segment:

	Six Months Ended	
(in thousands of Canadian dollars)	**June 30, 2019**	June 30, 2018[(a)]
North America	**$ 443,248**	$ 373,234
Latin America	**56,055**	65,949
EMAR[(b)]	**134,127**	98,855
Asia Pacific	**20,016**	61,316
Total revenue	**$ 653,446**	$ 599,354

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 4 for further details.

(b) Refers to the Europe, Middle East, Africa and Russia geographic region.

The table below sets forth, by geographical region, revenue for the current and the prior year three months ended June 30 for the Petrochemical and Industrial segment:

	Three Months Ended	
(in thousands of Canadian dollars)	**June 30, 2019**	June 30, 2018
North America	**$ 31,866**	$ 31,819
EMAR	**19,759**	19,959
Asia Pacific	**2,553**	2,834
Total revenue	**$ 54,178**	$ 54,612

The table below sets forth, by geographical region, revenue for the current and the prior year six months ended June 30 for the Petrochemical and Industrial segment:

	Six Months Ended	
(in thousands of Canadian dollars)	**June 30, 2019**	June 30, 2018
North America	**$ 63,521**	$ 60,064
EMAR	**40,655**	39,835
Asia Pacific	**4,925**	5,720
Total revenue	**$ 109,101**	$ 105,619

8 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, 2019 were \$0.9 and \$1.8 million (three and six month periods ended June 30, 2018 – \$0.9 and \$1.8 million). The Company's costs for the defined contribution pension arrangements for the three-month and six-month periods ended June 30, 2019 were \$3.2 and \$5.9 million (three-month and six-month periods ended June 30, 2018 – \$2.8 and \$5.5 million).

9 Gain on sale of land

The Company completed a review of its pipe coating footprint in Western Canada during the quarter. As result of this review, the Company sold one of its small diameter pipe coating facilities in Edmonton for proceeds of \$40 million. These funds will allow the Company to relocate and consolidate its capabilities on another owned property in Western Canada. As part of this sale transaction, the Company has entered into a two year lease to facilitate an orderly windup and move of its operations. In accordance with IFRS16 *Leases*, the Company recognized a gain of \$32.6 million and a \$5.0 million lease liability for future lease payments.

10 Income from Investments in Associates

The Company has equity accounted investments in Zedi Inc. ("Zedi") and Power-Feed-Thru Systems and Connects ("PFT"). During the second quarter of 2019, Zedi disposed of its software and automation businesses which represents a substantial part of its operations. The Company received \$29.2 million of proceeds pertaining to the partial redemption of the investment in Zedi and recorded a gain of \$9.7 million.

11 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,	
	2019	2018[(a)]	**2019**	2018[(a)]
Interest income	**\$ (428)**	\$ (789)	**\$ (1,352)**	\$ (1,630)
Interest expense on long-term debt	**4,469**	2,271	**6,741**	4,486
Interest expense, other	**612**	1,503	**1,991**	2,795
Interest expense on ROU assets	**830**	–	**1,560**	–
Finance Costs – net	**\$ 5,483**	\$ 2,985	**\$ 8,940**	\$ 5,651

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 4 for further details.

12 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,	
	2019	2018[(a)]
	%	%
Expected statutory income tax rate	**25.6**	26.8
Tax rate differential on earnings of foreign subsidiaries	**2.0**	4.5
Benefit of previously unrecognized tax losses	**(96.5)**	(39.4)
Deferred tax not recognized	**2.2**	27.4
Adjustment to prior year provisions	**2.9**	(9.6)
Non-deductible amounts	**(22.1)**	15.8
Withholding taxes	**4.0**	4.0
Argentina hyperinflation adjustment	**6.4**	6.3
Movement in uncertain tax positions	**(6.4)**	(0.3)
State tax and other	**(3.5)**	(1.1)
Effective Income Tax Rate	**(85.4)**	34.4

(a) Includes the impact of the adoption of IAS 29, Financial Reporting in Hyperinflationary Economies for Argentina as of January 1, 2018. See Note 4 for further details.

13 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)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018[(a)]	**2019**	2018[(a)]
Net income used to calculate EPS				
Net income (attributable to shareholders of the Company) for the period	**$ 51,044**	$ 7,308	**$ 41,970**	$ 11,137
Weighted average number of shares outstanding – basic (000s)	**70,140**	70,058	**70,130**	70,037
Dilutive effect of share-based compensation	**258**	90	**259**	143
Weighted average number of shares outstanding – diluted (000s)	**70,398**	70,148	**70,389**	70,180
Basic EPS	**$ 0.73**	$ 0.10	**$ 0.60**	$ 0.16
Diluted EPS	**$ 0.73**	$ 0.10	**$ 0.60**	$ 0.16

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Note 4 for further details.

14 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, 2019			Year Ended December 31, 2018		
	Total Shares		**Weighted Average Exercise Price**	Total Shares		Weighted Average Exercise Price
Balance Outstanding – Beginning of Period	**1,264,385**	**$**	**33.58**	1,195,385	$	33.06
Granted	**224,400**		**21.05**	248,900		25.22
Exercised	**(23,080)**		**15.51**	(122,280)		15.51
Expired	**(343,955)**		**36.69**	(57,620)		25.17
Balance Outstanding – End of Period	**1,121,750**	**$**	**30.49**	1,264,385	$	33.58
Options exercisable	**528,210**	**$**	**35.36**	752,245	$	36.22

June 30, 2019	**Options Outstanding**				**Options Exercisable**		
Range of Exercise Price	**Outstanding as at June 30, 2019**	**Weighted Average Remaining Contractual Life (years)**		**Weighted Average Exercise Price**	**Exercisable as at June 30, 2019**		**Weighted Average Exercise Price**
$21.05 to $25.00	**224,400**	**9.49**	**$**	**21.05**	–	**$**	–
$25.01 to $30.00	**392,460**	**7.00**		**25.69**	**153,620**		**26.09**
$30.01 to $35.00	**83,300**	**3.81**		**32.48**	**56,300**		**32.61**
$35.01 to $40.00	**234,690**	**5.86**		**36.93**	**131,390**		**36.62**
$40.01 to $45.00	**140,500**	**2.75**		**41.99**	**140,500**		**41.99**
$45.01 to $50.00	**46,400**	**1.05**		**45.73**	**46,400**		**45.73**
	1,121,750	**6.25**	**$**	**30.49**	**528,210**	**$**	**35.36**

December 31, 2018	Options Outstanding				Options Exercisable		
Range of Exercise Price	Outstanding as at December 31, 2018	Weighted Average Remaining Contractual Life (years)		Weighted Average Exercise Price	Exercisable as at December 31, 2018		Weighted Average Exercise Price
$15.01 to $20.00	23,080	0.20	$	15.51	23,080	$	15.51
$25.01 to $30.00	392,460	7.51		25.69	68,460		26.51
$30.01 to $35.00	224,000	3.49		32.69	197,000		32.75
$35.01 to $40.00	332,145	5.09		37.04	180,285		36.93
$40.01 to $45.00	246,300	3.58		41.69	246,300		41.69
$45.01 to $50.00	46,400	1.56		45.73	37,120		45.73
	1,264,385	5.04	$	33.58	752,245	$	36.22

The Board of Directors approved the granting of 224,400 stock options during the six-month period ended June 30, 2019 (June 30, 2018 – 248,900) under the 2001 Employee Plan. The total fair value of the stock options granted during the six-month period ended June 30, 2019 was $1.0 million (six-month period ended June 30, 2018 – $1.3 million) and was calculated using the Black-Scholes pricing model with the following assumptions:

	Six Months Ended June 30,			
		2019		2018
Weighted average share price	**$**	**21.05**	$	25.22
Exercise price	**$**	**21.05**	$	25.22
Weighted average expected life of options		**6.25**		6.25
Weighted average expected stock price volatility		**26.5%**		27.0%
Weighted average expected dividend yield		**2.73%**		2.41%
Weighted average risk-free interest rate		**1.70%**		2.04%

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, 2019, included in selling, general and administrative expenses, was $0.6 million (six-month period ended June 30, 2018 – $0.7 million).

Stock Options with Tandem Share Appreciation Rights

	Six Months Ended June 30, 2019		Year Ended December 31, 2018	
	Total Shares	**Weighted Average Fair Value[(a)]**	Total Shares	Weighted Average Fair Value
Balance Outstanding – Beginning of Period	**426,000**	**$ 8.79**	407,100	$ 10.05
Granted	**91,700**	**4.61**	127,800	4.68
Cancelled/forfeited	**(80,000)**	**10.30**	(108,900)	8.67
Balance Outstanding – End of Period	**437,700**	**$ 7.64**	426,000	$ 8.79
Options exercisable	**185,000**	**$ 9.73**	210,380	$ 10.42

(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, 2019 is $0.3 million (December 31, 2018 – $0.1 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, 2019 is $15.6 million (December 31, 2018 – $10.3 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, 2019		Year Ended December 31, 2018	
	Total Shares	**Weighted Average Grant Date Fair Value[(a)]**	Total Shares	Weighted Average Grant Date Fair Value[(a)]
Balance Outstanding - Beginning of Period	**611,840**	**$ 31.02**	598,037	$ 32.02
Granted	**102,340**	**19.73**	71,247	22.52
Exercised	**(26,252)**	**29.79**	(38,419)	30.90
Forfeited/cancelled	**(5,736)**	**28.88**	(19,025)	30.95
Balance Outstanding - End of Period	**682,192**	**$ 29.39**	611,840	$ 31.02
RSUs/PSUs exercisable	**364,108**	**$ 33.22**	308,170	$ 33.21

(a) Neither RSU awards nor PSU awards 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, 2019 is $0.7 million (December 31, 2018 – $0.6 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, 2019			Year Ended December 31, 2018		
	Total Shares		**Weighted Average Grant Date Fair Value[(a)]**	Total Shares		Weighted Average Grant Date Fair Value[(a)]
Balance Outstanding - Beginning of Period	**218,498**	**$**	**31.90**	191,046	$	33.86
Granted	**39,736**		**19.31**	58,928		21.90
Exercised	**–**		**–**	(31,476)		25.11
Balance Outstanding - End of Period	**258,234**	**$**	**29.96**	218,498	$	31.89

(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, 2019 is $4.7 million (December 31, 2018 – $3.6 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,**			
		2019		2018		**2019**		2018
Stock option expense	**$**	**294**	$	329	**$**	**597**	$	651
VGP expense		**3,437**		2,167		**6,315**		4,211
DSU (recovery) expense		**(12)**		514		**1,108**		272
RSU expense		**662**		811		**1,355**		1,729
SARs (recovery) expense		**(164)**		201		**230**		(333)
PIP expense		**87**		68		**200**		83
Total share-based and other incentive-based compensation expense	**$**	**4,304**	$	4,090	**$**	**9,805**	$	6,613

15 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 2019**		December 31, 2018
Cash	**$**	**119,757**	$	169,704
Cash equivalents		**2,653**		47,560
Total	**$**	**122,410**	$	217,264

16 Loans Receivable

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

(in thousands of Canadian dollars)		**June 30, 2019**		December 31, 2018
Current				
Loans receivable	**$**	**1,701**	$	2,492
Non-current				
Loans receivable[(a)]	**$**	**–**	$	545
Total	**$**	**1,701**	$	3,037

(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, 2019, the amount of the loans receivable was US$1.3 million (December 31, 2018 – US$2.2 million).

17 Long-term Debt and Senior Notes

The following table sets forth the Company's total long-term debt as at:

(in thousands of Canadian dollars)		**June 30, 2019**		December 31, 2018
Long-term debt	**$**	**474,070**	$	–
Senior notes		**–**		267,781
Total long-term debt	**$**	**474,070**	$	267,781

Credit Facilities

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

(in thousands of Canadian dollars)		**June 30, 2019**		December 31, 2018
Borrowings on credit facility	**$**	**477,000**	$	–
Deferred transaction costs		**(2,930)**		–
Total long-term debt	**$**	**474,070**	$	–
Standard letters of credit for financial guarantees, performance and bid bonds		**30,475**		43,879
Total utilized credit facilities	**$**	**504,545**	$	43,879
Total available credit facilities[(a)]		**775,423**		500,498
Unutilized Credit Facilities	**$**	**270,878**	$	456,619

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

On March 13, 2019, the Company renewed its Unsecured Committed Bank Credit Facility ("Credit Facility") for a period of four years, with the maximum borrowing limit of US$500 million, an increase of US$183 million over the previous Credit Facility’s borrowing limit. The increase in the Credit Facility was intended, in part, to fund the acquisition of ZCL Composites Inc. ("ZCL"). The Company pays a floating interest rate on this Credit Facility that is a function of the Company’s Net Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), and before foreign exchange gains or losses, and non-recurring and one-time items. The Company is required to maintain an Interest Coverage Ratio of more than 3.00:1.00 and a Net Leverage Ratio of less than 3.50:1.00. For calculating the Net Leverage Ratio, Net

Debt excludes the first $100 million of performance and bid bond letters of credit and all standard letters of credit that are guaranteed by Export Development Canada (EDC).

The Company wrote off the remaining deferred financing costs of $0.8 million pertaining to its previous Credit Facility in the first quarter of 2019.

The Company was in full compliance with financial covenants as at June 30, 2019 and December 31, 2018.

Senior Notes

On March 7, 2019, the Company used a combination of cash and bank debt to repay the entire principal amount outstanding and accrued interest of $266.5 million (US$199.8 million) and a make whole amount of $7.0 million (US$5.2 million). In addition, the Company wrote off $0.7 million of the remaining deferred financing costs and $3.9 million of cash flow hedge losses previously recorded in other comprehensive income (loss) in the first quarter of 2019.

18 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 interim consolidated financial position of the Company.

Performance, Bid and Surety Bonds

The Company provides standby letters of credit for performance, bid and surety bonds through financial intermediaries to various customers in support of project contracts for the successful execution of these contracts. If the Company fails to perform under the terms of the contract, the customer has the ability to draw upon all or a portion of the 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 $30.5 million as at June 30, 2019 (December 31, 2018 – $43.9 million) for support of its bonds. In addition, as at June 30, 2019, the Company had $77.5 million of outstanding surety bonds through insurance companies (December 31, 2018 – $66.3 million).

19 Share Capital

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

(in thousands of Canadian dollars)		
Number of Shares		
Balance, December 31, 2018		**70,101,289**
Issued on exercise of stock options		**23,080**
Issued on exercise of RSUs		**26,252**
Balance, June 30, 2019		**70,150,621**
Stated Value:		
Balance, December 31, 2018	**$**	**708,833**
Issued on exercise of stock options		**357**
Compensation cost on exercised stock options		**139**
Compensation cost on exercised RSUs		**845**
Balance, June 30, 2019	**$**	**710,174**

(in thousands of Canadian dollars)		
Number of Shares		
Balance, December 31, 2017		69,940,590
Issued on exercise of stock options		122,280
Issued on exercise of RSUs		38,419
Balance, December 31, 2018		70,101,289
Stated Value:		
Balance, December 31, 2017	$	704,956
Issued on exercise of stock options		1,897
Compensation cost on exercised stock options		735
Compensation cost on exercised RSUs		1,245
Balance, December 31, 2018	$	708,833

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 June 30,**				**Six Months Ended June 30,**			
		2019		2018		**2019**		2018
Dividends declared and paid to shareholders	**$**	**10,520**	$	10,510	**$**	**21,040**	$	21,016
Dividends declared and paid per share	**$**	**0.15**	$	0.15	**$**	**0.30**	$	0.30