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SHAWCOR LTD.
(TSX: SCL)

PRESS RELEASE

SHAWCOR LTD. ANNOUNCES SECOND QUARTER 2019 RESULTS

- Second quarter 2019 revenue was \$412 million, which reflects a full quarter impact from the acquisition of ZCL Composites Inc. ("ZCL"). This is an increase of 18% from the \$350 million reported in the first quarter of 2019 and is 17% higher than the \$353 million reported in the second quarter of 2018.
- Adjusted EBITDA¹ in the second quarter of 2019 was \$36 million, which reflects a positive impact from the ZCL acquisition, an increase of 28% from the \$28 million reported in the first quarter of 2019 and basically in-line with the \$37 million reported in the second quarter of 2018.
- Net income² in the second quarter of 2019 was \$51.0 million (or earnings per share of \$0.73) compared with a net loss of \$9.1 million (or loss per share of \$0.13) in the first quarter of 2019 and a net income of \$7.3 million (or \$0.10 earnings per share diluted) in the second quarter of 2018. Excluding the impact of gains on the sale of land and investment in associate, the costs related to the acquisition of ZCL and the adjustment for Argentina Hyperinflationary accounting, adjusted net income¹ in the second quarter of 2019 was \$18.9 million (or \$0.27 adjusted earnings per share¹).
- The Company's order backlog was \$519 million at June 30, 2019, which includes orders related to the ZCL business, higher compared to the backlog of \$454 million at March 31, 2019.

Mr. Steve Orr, Chief Executive Officer of Shawcor Ltd. remarked "Second quarter results reflected positive momentum in the dynamic management of our base businesses, securing and executing pipe coating projects and reduction of our debt leverage. We are pleased with the results we were able to deliver, especially considering the continued subdued activity in Western Canada and the early quarter softness of our land products sales in the United States."

Mr. Orr added "With the integration of ZCL tracking in line with our acquisition plan and the resultant further expansion of our diversified portfolio, and the high confidence that our pipe coating business will benefit from the return of offshore and international projects, the Company's future success will be driven by our ability to continue to execute as we have in the past and in particular during this quarter."

¹ EBITDA, Adjusted EBITDA, adjusted net income and adjusted earnings per share are Non-GAAP measures and do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies. See Section 6.0 – Reconciliation of Non-GAAP Measures for further details and a reconciliation of these Non-GAAP measures.

² Net Income attributable to shareholders of the Company.

Selected Financial Highlights

(in thousands of Canadian dollars, except per share amounts and percentages)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018 ^(c)	2019	2018 ^(c)
Revenue	\$ 411,789	\$ 353,368	\$ 761,367	\$ 704,135
Gross profit	117,420	113,941	215,624	230,793
Gross profit %	28.5%	32.2%	28.3%	32.8%
Adjusted EBITDA^(a)	36,214	37,291	64,458	72,359
Income from Operations	29,376	13,465	37,010	24,230
Net Income for the period ^(b)	\$ 51,044	\$ 7,308	\$ 41,970	\$ 11,137
Earnings per share:				
Basic	\$ 0.73	\$ 0.10	\$ 0.60	\$ 0.16
Fully diluted	\$ 0.73	\$ 0.10	\$ 0.60	\$ 0.16
Adjusted Net Income ^(d)	\$ 18,785	\$ 10,153	\$ 22,211	\$ 15,495
Adjusted Net Income Attributable to Shareholders	18,937	9,914	22,210	15,124
Adjusted EPS ^(d)				
Basic	\$ 0.27	\$ 0.14	\$ 0.32	\$ 0.22
Diluted	\$ 0.27	\$ 0.14	\$ 0.32	\$ 0.22

(a) Adjusted EBITDA is a non-GAAP measure calculated by adding back to net income the sum of net finance costs, income taxes, amortization of property, plant, equipment, intangible and right-of-use ("ROU") assets, cost associated with repayment of long-term debt and credit facilities, gain from sale of land, gain on redemption of investment in associate, ZCL acquisition costs and other related items and hyperinflationary adjustments. Adjusted EBITDA does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies. See Section 6.0 – Reconciliation of Non GAAP Measures.

(b) Attributable to shareholders of the Company.

(c) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Section 7.0 - *Financial Reporting in Hyperinflationary Economies*.

(d) Adjusted Net Income is a non-GAAP measure defined as net income before acquisition-related and integration items, including transaction costs and financing fees; cost reduction and integration related initiatives such as separation benefits, retention payments, other exit costs, impact of inventory revaluation adjustment and certain costs associated with integrating an acquired company's operations; gains or losses from early termination of debt and hedging activities; gains and losses on the disposal of land; gain on sale or redemption of investment in associate; asset impairment charges; hyperinflation adjustment for Argentina and the tax effect of the pre-tax adjustments above at applicable tax rates and certain other tax items. We define adjusted EPS as adjusted net income attributable to shareholders divided by the weighted average number of shares and the weighted average number of diluted shares.

1.0 KEY DEVELOPMENTS

International Offshore Pipe Coating Contracts

On June 13, 2019, the Company announced that its pipe coating division had entered into several contracts with an international EPC contractor to provide coating services for multiple offshore pipeline projects. These projects will be executed within Shawcor's network of coating facilities, including Serra in Brazil, Orkanger in Norway and Channelview in the United States during 2019-2020. Coating work under these contracts is valued at approximately CAD\$65 million.

BP Tortue Project

On May 3, 2019, the Company announced that its pipe coating division had been awarded a conditional contract from Sumitomo Corporation Europe Limited valued at approximately CAD\$30 million to provide anticorrosion and concrete weight coating services for the BP Tortue Phase 1A Project development, located offshore Senegal and Mauritania, West Africa. The conditions to the contract have been fulfilled and it is scheduled to be executed from the Kabil, Indonesia facility during 2020.

Acquisition of ZCL Composites Inc. ("ZCL")

On April 2, 2019, the Company completed the acquisition of ZCL previously announced on January 20, 2019. The Company acquired all of the shares of ZCL by way of a statutory plan of arrangement for \$10.00 per share in cash. The price per share implied an aggregate fully diluted equity value for ZCL of approximately \$308 million. The acquisition was funded through the Company's cash balances and credit facility. 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.

1.1 OUTLOOK

Shawcor's financial performance is correlated with oil and gas infrastructure, civil engineering and automotive spending and the resultant demand for the Company's products and services. Adjusted EBITDA¹ for the second quarter of 2019, which includes the full quarter impact of the ZCL acquisition, was higher than expected due to higher activity and related utilization in the pipe coating business and demand for girth weld inspection services related to North American large diameter transmission and International offshore work in the quarter. The current quarter's performance was negatively impacted by the ongoing weakness in Western Canada which resulted in lower demand for small diameter line pipe coating and tubular inspection services, lower demand for composite products in the United States due to customer spending dynamics and ongoing investments in the pipe coating business for idle assets and project pursuits. The second quarter results continue to support the Company's continued expectation that 2019 will be a year of two halves where the results of the second half of the year will be an improvement over the first half. Excluding the positive impact of the ZCL acquisition, the 2019 annual results are expected to be comparable to 2018, although individual quarterly performance will be dependent on the continued strength of our base business, particularly in the U.S., and the timing of when pipe coating activity will improve.

The Company's base business in North America is heavily tied to the spending programs of exploration and production operators and retail fuel customers. In Western Canada, limited off-take capacity in the region caused by the lack of new pipeline infrastructure continued to depress spending by operators. Similar to the first quarter, second quarter results were negatively impacted by unusually low activity levels compared to historical performance and activity levels are not expected to improve in the short term. In the U.S. land, operators continued their recent focus on capital discipline and generating returns for shareholders which has resulted in lower demand for our composite products and small diameter coating services. Although the Company's diversified portfolio of products and services is well positioned to support its customers in this market, there is short term uncertainty in how demand for our products and services will be impacted by this recent change in operator strategy. In the North American composite tank business of the newly acquired ZCL, retail fuel orders remain solid and at comparable levels to the prior year. Although not yet significant, the Company has also experienced positive traction on tank sales in the oil and gas and water and wastewater markets during the quarter.

¹ EBITDA and Adjusted EBITDA are Non-GAAP measures and do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies. See Section 6.0 – Reconciliation of Non-GAAP Measures for further details and a reconciliation of EBITDA and Adjusted EBITDA.

The Company continues to see signs of positive momentum in the offshore global oil & gas capex cycle from the low point experienced in 2018 and strongly believes that this market is poised for growth in late 2019 and beyond. As evidenced by the continued solid level of our current bids outstanding and the record level of subsea orders being reported in the industry, the likelihood of projects being sanctioned in the near to medium term has increased. These project investments are required to replace, maintain and rehabilitate infrastructure that is at or beyond its useful design life, replace production due to reservoir depletion and address geopolitical challenges which are affecting several important producing regions. Additionally, there has been greater focus on investments in gas, specifically LNG, which are being supported by the increased global demand for gas and greener technology. The Company remains well positioned to capitalize on this continuing positive trend in project activity through its global footprint, technology portfolio and execution history.

During the quarter, the Company continued its strategic efforts to position itself as the partner of choice in the pursuit of several projects. Operators continue the trend of engaging large global Engineering-Procurement-Construction (EPC) companies to standardize engineering approaches and lower overall costs. As part of this process, EPC's are selecting preferred suppliers to participate in the planning process significantly earlier than in the past in order to ensure greater certainty of execution and costs. This new model has allowed the Company to work with several EPC's on multiple projects and provide greater visibility on future project wins in advance of final investment decisions. Examples of this new contracting model are the project wins of Liza I and II in the fourth quarter of 2018, the recent announcement of a multi offshore project award and the expected near term sanctioning of the more than \$150 million in conditional awards with EPC companies currently reported in our firm bids. Although the exact timing of when projects are sanctioned is difficult to predict, the Company believes that there is still a strong likelihood that some of these projects will be sanctioned in 2019 and beyond. The Company expects that higher pipe coating activity in the second half of 2019 will assist in the potential delivery of improved annual operating results over 2018. In addition, the Company believes backlog will build in 2019 and this will enable the delivery of stronger results in 2020.

With confidence in the expected increase in pipe coating activity in the second half of 2019, the further strengthening in 2020 and the continued strength of our diversified base business, the Company continued its growth strategy with the acquisition of ZCL in the quarter. Significant integration efforts are underway and annualized run-rate cost synergies by the end of the first year are estimated at over \$8 million, of which the Company believes it has already secured 70%. In addition to the cost benefits, the combination of ZCL and Shawcor has increased the addressable market for the Company as a whole and is expected to generate \$35 million of annualized revenue synergies by the end of the third year following the acquisition. These synergies are expected to be achieved by the improvement of distribution channels to the market, the linking of discrete components into systems such as pipe and tank, and the leveraging of the Company's global footprint to extend the reach of tank technology. While still in the early stages, this additional addressable market will provide another lever for the Company's growth in the future.

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

Pipeline and Pipe Services Segment - North America

Market demand in Shawcor's North American Pipeline segment businesses is closely tied to well completions and the build out of new and the repair/replacement of old transmission pipeline infrastructure and the refurbishment or new construction of retail fuel outlets. These well completion and transmission line activities drive the demand for small diameter pipe coating and joint protection, composite pipe for gathering line applications, OCTG pipe inspection and refurbishment and gathering line girth weld inspection. The softness experienced in Western Canada in the first half of the year is expected to continue as off-take capacity remains limited and there is no certainty of new pipeline infrastructure being built. Although demand in North American land activity is expected to resume in the second half of 2019 when take-away capacity constraints in the Permian are addressed through several transmission pipeline projects currently underway, activity levels in the near term may be challenged due to lower customer spending resulting from the greater focus on capital discipline. The diversified breadth of the Company's portfolio is helping to absorb some of these headwinds. Demand for composite tanks in the retail fuel

market is expected to remain solid in the second half of 2019 and comparable to the prior year's results. In addition, the Company continues to experience strong demand for its pipe coating capabilities from increased activity in the Gulf of Mexico and larger diameter onshore transmission line projects, which is improving the utilization of our North American based coating facilities.

Pipeline and Pipe Services Segment - Latin America

The Company continues to expect increased activity in the recently reactivated facilities in Mexico and Brazil related to the continued activity in Guyana and on land transmission lines and smaller offshore Brazilian projects. This is supported by the Liza II project, which had a positive start in execution at the Company's Veracruz facility in the second quarter, and is expected to contribute positive results in the second half of 2019.

Pipeline and Pipe Services Segment – Europe, Middle East, Africa and Russia ("EMAR")

Shawcor's EMAR Pipeline region continues to be negatively impacted by reduced capital spending by national and international energy companies. Although the EMAR region continues to be challenging, there will be some positive contribution from the continued execution of coating work related to an offshore Qatar pipeline and new work to be started in late 2019 related to a recently announced multi offshore project award with an EPC company. The Company continues to pursue several large projects in the region that, if won, could provide significant work beyond 2019.

Pipeline and Pipe Services Segment - Asia Pacific

The region's project activity will continue to be depressed due to the lack of offshore project investments. Although the Company believes activity levels will increase slightly in late 2019, greater contributions from pipe coating activity are expected beyond 2019 from several large projects that could be awarded in 2019 which are related to the development of gas reservoirs.

Petrochemical and Industrial Segment

Shawcor's Petrochemical and Industrial segment businesses continue to deliver stable revenue and operating income supported by the stable European and North American industrial markets and despite some softening of automotive markets. These markets generally follow GDP activity; however, the segment continues to be well positioned to capture the growing trend of electronic content in automobiles with specified sealing, insulating and customized application equipment systems for Tier 1 assembly customers. Demand for wire and cable products is expected to remain solid due to continued spending in Canadian transit and electrical infrastructure.

Order Backlog

The Company's order backlog consists of firm customer orders only and represents the revenue the Company expects to realize on booked orders over the succeeding twelve months. The Company reports the twelve month billable backlog because it provides a leading indicator of significant changes in consolidated revenue. The order backlog of \$519 million as at June 30, 2019, was higher than the \$454 million order backlog as at March 31, 2019. This increase reflects the addition of composite tank orders related to the ZCL acquisition, project wins moving from bid to backlog and new orders on the base business offset by revenue generated in the quarter from backlog orders. The current backlog does not include secured orders to be executed beyond twelve months, which have increased over the prior quarter due to the recent announcement of a multi offshore project award with an EPC company.

In addition to the backlog, the Company closely monitors its bidding activity, which represents bids provided to customers with firm pricing and terms and conditions against a defined scope. The value of outstanding firm bids is over \$1.1 billion as at June 30, 2019, in line with the previous quarter, reflecting the continued solid bidding activity for pipe coating in the offshore and international markets. Included in the firm bid, but not in the backlog,

are unsanctioned conditional awards between EPC companies and Shawcor for a scope of work that is estimated at over \$150 million in revenue beyond 2019 and expected to be sanctioned in the near term. The Company is also working with customers on a number of other projects and the budgetary estimates at the end of the second quarter remain strong at almost \$1.6 billion. Budgetary estimates are provided to customers at an earlier stage than bids to assist the customers in preparing their feasibility studies or to consider different potential execution options on projects. Although the timing of these projects is uncertain, the Company's bid and budgetary figures represent a diverse portfolio of opportunities to sustain and build the backlog through 2019 and beyond.

2.0 CONSOLIDATED INFORMATION AND RESULTS FROM OPERATIONS

2.1 Revenue

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

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018 ^(b)	June 30, 2019	June 30, 2018 ^(b)
(in thousands of Canadian dollars)					
Pipeline and Pipe Services	\$ 358,353	\$ 295,093	\$ 299,140	\$ 653,446	\$ 599,354
Petrochemical and Industrial	54,178	54,923	54,612	109,101	105,619
Elimination ^(a)	(742)	(438)	(384)	(1,180)	(838)
Consolidated revenue	\$ 411,789	\$ 349,578	\$ 353,368	\$ 761,367	\$ 704,135

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

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Section 7.0 - *Financial Reporting in Hyperinflationary Economies*.

Second Quarter 2019 versus First Quarter 2019

Consolidated revenue increased 18%, or \$62.2 million, from \$349.6 million during the first quarter of 2019 to \$411.8 million during the second quarter of 2019, due to increases of \$63.3 million in the Pipeline and Pipe Services segment, partially offset by a decrease of \$0.8 million in the Petrochemical and Industrial segment.

Revenue increased by 21% in the Pipeline and Pipe Services segment, or \$63.3 million, from \$295.1 million in the first quarter of 2019 to \$358.4 million in the second quarter of 2019, due to higher revenues in North America from the addition of the ZCL business and higher activity levels in EMAR, partially offset by lower volumes in Latin America and Asia Pacific. See Section 3.1 – *Pipeline and Pipe Services Segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

In the Petrochemical and Industrial segment, revenue was lower by \$0.8 million, or 1%, in the second quarter of 2019, compared to the first quarter of 2019, primarily due to lower activity levels in EMAR, partially offset by higher volumes in North America and Asia Pacific. See Section 3.2 – *Petrochemical and Industrial Segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

Second Quarter 2019 versus Second Quarter 2018

Consolidated revenue increased by \$58.4 million, or 17%, from \$353.4 million during the second quarter of 2018, to \$411.8 million during the second quarter of 2019, reflecting a \$59.2 million revenue increase in the Pipeline and Pipe Services segment, partially offset by a \$0.4 million revenue decrease in the Petrochemical and Industrial segment.

In the Pipeline and Pipe Services segment, revenue in the second quarter of 2019 was \$358.4 million, or 20% higher than in the second quarter of 2018, due to higher revenues in North America from the addition of the ZCL business and higher activity levels in EMAR, partially offset by lower revenue levels in Asia Pacific and Latin America. See Section 3.1 – *Pipeline and Pipe Services Segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

In the Petrochemical and Industrial segment, revenue was \$0.4 million lower during the second quarter of 2019, compared to \$54.6 million in the second quarter of 2018, due to decreased activity levels in EMAR and Asia Pacific. See *Section 3.2 – Petrochemical and Industrial Segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

Six Months ended June 30, 2019 versus Six Months ended June 30, 2018

Consolidated revenue increased by \$57.2 million, or 8%, from \$704.1 million for the six month period ended June 30, 2018 to \$761.4 million for the six month period ended June 30, 2019, reflecting an increase of \$54.1 million, or 9%, in the Pipeline and Pipe Services segment and a \$3.5 million, or 3%, increase in revenue in the Petrochemical and Industrial segment.

Revenue for the Pipeline and Pipe Services segment during the first half of 2019 was \$653.5 million, or \$54.1 million higher than in the comparable period in 2018, due to higher revenues in North America from the addition of the ZCL business and higher activity levels in EMAR, partially offset by lower revenue in Asia Pacific and Latin America. See *Section 3.1 – Pipeline and Pipe Services Segment* for additional disclosure with respect to the change in revenue in the Pipeline and Pipe Services segment.

Revenue for the Petrochemical and Industrial segment increased by \$3.5 million in the first half of 2019 compared to the same period in 2018, due to higher activity levels in EMAR and North America, partially offset by lower revenue in Asia Pacific. See *Section 3.2 – Petrochemical and Industrial Segment* for additional disclosure with respect to the change in revenue in the Petrochemical and Industrial segment.

2.2 Income from Operations ("Operating Income")

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

(in thousands of Canadian dollars, except percentages)	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018 ^(b)	June 30, 2019	June 30, 2018 ^(b)
Operating income	\$ 29,376	\$ 7,634	\$ 13,465	\$ 37,010	\$ 24,230
Operating margin ^(a)	7.1%	2.2%	3.8%	4.9%	3.4%

(a) Operating margin is defined as operating income divided by revenue and is a non-GAAP measure. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 6.0 – Reconciliation of Non-GAAP Measures*.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See *Section 7.0 – Financial Reporting in Hyperinflationary Economies*.

Operating income in the second quarter benefited from a \$32.6 million gain on the 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 in a more efficient facility with the latest technology 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 IFRS 16 *Leases*, the Company recognized a gain of \$32.6 million and a \$5.0 million lease liability for future lease payments.

Operating income in the second quarter includes the addition of the ZCL business, which had a net negative impact due to higher expenses recorded in the quarter for additional depreciation and amortization and inventory fair market value adjustment resulting from the accounting of the acquisition, and other non-recurring integration and acquisition related costs.

The Company adopted IFRS 16 in the first quarter of 2019. This new accounting standard requires the Company to recognize a lease right of use ("ROU") asset and a lease liability to reflect the benefit the Company obtains from the underlying asset in the lease and the requirement to pay the amounts included in the lease contract.

Under the previous standard, IAS 17 *Leases*, costs relating to operating leases were recognized on a straight-line basis as a selling, general and administrative ("SG&A") expense. Under IFRS 16, the Company records an amortization expense as amortization of ROU assets and records an interest expense relating to the lease liability. The amount of the amortization and interest recorded for the three months ended June 30, 2019 was \$4.7 million and \$0.8 million, respectively. The standard was adopted prospectively from January 1, 2019, and accordingly the 2018 results have not been affected.

Second Quarter 2019 versus First Quarter 2019

Operating income increased by \$21.7 million, from \$7.6 million during the first quarter of 2019 to \$29.4 million in the second quarter of 2019. Operating income was positively impacted by a \$32.6 million gain on the sale of land and a \$19.2 million increase in gross profit. This was partially offset by increases of \$20.3 million in SG&A expenses, \$7.4 million in amortization of property, plant, equipment, intangible and ROU assets and \$2.3 million in net foreign exchange losses.

The increase in gross profit resulted from the \$62.2 million increase in revenue, as explained above and a 0.4 percentage point increase in the gross margin from the first quarter of 2019. The increase in the gross margin percentage was primarily due to product and project mix, higher facility utilization and increased absorption of manufacturing overheads. This was partially offset by the impact of inventory revaluation adjustment related to the acquisition of ZCL.

SG&A expenses increased by \$20.3 million compared to the first quarter of 2019, with \$12.9 million of the increase related to the acquisition of the ZCL business for its ongoing SG&A expenses and non-recurring integration and acquisition related costs. The remainder of the increase relates primarily due to increases of \$3.5 million in warranty and decommissioning expenses, \$1.3 million in equipment costs and other costs.

Second Quarter 2019 versus Second Quarter 2018

Operating income increased by \$15.9 million, from \$13.5 million in the second quarter of 2018 to \$29.4 million during the second quarter of 2019. Operating income was positively impacted by a \$32.6 million gain on the sale of land and a \$3.5 million increase in gross profit. This was partially offset by increases of \$8.3 in SG&A expenses, \$5.6 million in net foreign exchange losses and \$6.3 million in amortization of property, plant, equipment, intangible and ROU assets.

The increase in gross profit resulted from the higher revenue, as explained above, partially offset by a 3.7 percentage point decrease in the gross margin from the second quarter of 2018. The decrease in the gross margin percentage was primarily due to lower large project load out activity in Latin America compared to a year ago, lower utilization in Asia Pacific facilities, impact of inventory revaluation adjustment related to acquisition of ZCL and the related impact of the lower activity on the absorption of manufacturing overheads.

SG&A expenses in the second quarter of 2019 increased by \$8.3 million compared to the second quarter of 2018, with \$12.9 million of the expenses in the current quarter related to the acquisition of the ZCL business for its ongoing SG&A expenses and non-recurring integration and acquisition related costs. This was partially offset by a \$5.0 million decrease in rental and building costs due to the implementation of IFRS 16, as lease costs are now reported as amortization of ROU assets and interest on ROU assets.

Six Months ended June 30, 2019 versus Six Months ended June 30, 2018

Operating income increased by \$12.8 million, from \$24.2 million in the six month period ended June 30, 2018, to \$37.0 million in the six month period ended June 30, 2019. Operating income was positively impacted by a \$32.6 million gain on the sale of land and a \$3.2 million decrease in SG&A expenses. This was partially offset by a year-over-year \$15.2 million decrease in gross profit, a \$0.3 million increase in research and development expense, a \$2.4 million increase in amortization of property, plant, equipment, intangible and ROU assets and a \$5.2 million decrease in net foreign exchange gains.

The decrease in gross profit resulted from a 4.5 percentage point decrease in the gross margin from the prior year, partially offset by the higher revenue, as explained above. The decrease in the gross margin percentage was primarily due to lower large project load out activity in Latin America compared to a year ago, lower utilization in Asia Pacific facilities, impact of inventory revaluation adjustment related to acquisition of ZCL and the related impact of the lower activity on the absorption of manufacturing overheads.

SG&A expenses decreased by \$3.2 million in the first six months of 2019 compared to the comparable period in 2018, with \$13.5 million of the expenses related to the acquisition of the ZCL business for its ongoing SG&A expenses and non-recurring integration and acquisition related costs. Excluding the impact of the ZCL acquisition, the decrease was primarily due to a \$9.8 million decrease in rental and building costs due to the implementation of IFRS 16, as lease costs are now reported as amortization of ROU assets and interest on ROU assets, and decreases of \$4.2 million in equipment costs and \$8.8 million in decommissioning, product development, professional consulting and legal fees and other costs. This was partially offset by increases of \$5.2 million in compensation and other personnel related costs.

2.3 Income from Investments in Associates

The Company has equity accounted investments in Zedi Inc. ("Zedi") and Power-Feed-Thru Systems & Connections LLC ("PFT"). During the second quarter of 2019, Zedi disposed of its software and automation businesses which represented 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.

2.4 Finance Costs, net

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

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018^(a)	June 30, 2019	June 30, 2018^(a)
(in thousands of Canadian dollars)					
Interest income	\$ (428)	\$ (924)	\$ (789)	\$ (1,352)	\$ (1,630)
Interest expense on long-term debt	4,469	2,273	2,271	6,741	4,486
Interest expense, other	612	1,378	1,503	1,991	2,795
Interest expense on ROU assets	830	730	–	1,560	–
Finance costs, net	\$ 5,483	\$ 3,457	\$ 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 Section 7.0 - *Financial Reporting in Hyperinflationary Economies*.

Second Quarter 2019 versus First Quarter 2019

In the second quarter of 2019, net finance costs were \$5.5 million, compared to net finance costs of \$3.5 million during the first quarter of 2019. The increase in net finance costs was primarily due to a \$2.2 million increase in interest expense on long term debt, primarily due to the acquisition of ZCL, and a reduction of \$0.5 million in interest income. This was partially offset by a \$0.8 million reduction in other financing expenses.

Second Quarter 2019 versus Second Quarter 2018

In the second quarter of 2019, net finance costs were \$5.5 million, compared to net finance costs of \$3.0 million during the second quarter of 2018. The increase in net finance costs was primarily due to a \$2.2 million increase in interest expense on long term debt, primarily due to the acquisition of ZCL, a reduction of \$0.3 million in interest income, and a \$0.8 million increase in interest expense on ROU assets on adoption of IFRS 16. This was partially offset by a \$0.9 million reduction in other financing expenses.

Six Months Ended June 30, 2019 versus Six Months Ended June 30, 2018

For the six months ended June 30, 2019, net finance costs were \$8.9 million, compared to \$5.7 million in the comparable period in the prior year. The increase in net finance costs was primarily due to a \$2.3 million increase in interest expense on long term debt, primarily due to the acquisition of ZCL, a reduction of \$0.3 million in interest income, and a \$1.6 million increase in interest expense on ROU assets on adoption of IFRS 16. This was partially offset by a \$0.8 million reduction in other financing expenses.

2.5 Income Taxes

The following table sets forth the income tax expenses for the following periods:

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018 ^(a)	June 30, 2019	June 30, 2018 ^(a)
(in thousands of Canadian dollars)					
Income tax (recovery) expense	\$ (18,750)	\$ (604)	\$ 2,478	\$ (19,354)	\$ 6,025

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Section 7.0 - *Financial Reporting in Hyperinflationary Economies*.

Second Quarter 2019 versus First Quarter 2019

The Company recorded an income tax recovery of \$18.8 million (58% of income before income taxes) in the second quarter of 2019, compared to an income tax recovery of \$0.6 million (6% of loss before income taxes) in the first quarter of 2019. The effective tax rate in the second quarter of 2019 was lower than the Company's statutory income tax rate of 26% primarily due to the recognition of previously unrecognized deferred tax assets in the US and Canada associated with the ZCL acquisition purchase accounting, the gain on the sale of land, the gain on the redemption of investment in associate and the future outlook for the mix of jurisdictions where income is expected to be earned.

Second Quarter 2019 versus Second Quarter 2018

The Company recorded an income tax recovery of \$18.8 million (58% of income before income taxes) in the second quarter of 2019, compared to an income tax expense of \$2.5 million (25% of income before income taxes) in the second quarter of 2018. The effective tax rate in the second quarter of 2019 was lower than the Company's statutory income tax rate of 26% primarily due to the recognition of previously unrecognized deferred tax assets in the US and Canada associated with the ZCL acquisition purchase accounting, the gain on the sale of land, the gain on the redemption of investment in associate and the future outlook for the mix of jurisdictions where income is expected to be earned.

Six Months ended June 30, 2019 versus Six Months ended June 30, 2018

The Company recorded an income tax recovery of \$19.4 million (86% of income before income taxes) during the six-month period ended June 30, 2019, compared to an income tax expense of \$6.0 million (34% of income before income taxes) during the six-month period ended June 30, 2018. The effective tax rate for the six month period ended June 30, 2019 was lower than the Company's statutory income tax rate of 26% primarily due to the recognition of previously unrecognized deferred tax assets in the US and Canada associated with the ZCL

acquisition purchase accounting, the gain on the sale of land, the gain on the redemption of investment in associate and the future outlook for the mix of jurisdictions where income is expected to be earned.

2.6 Foreign Exchange Impact

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
U.S. dollar	1.3392	1.2962	1.3332	1.2785
Euro	1.5033	1.5464	1.5077	1.5404
British Pounds	1.7193	1.7585	1.7289	1.7486

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

	Q2-2019 versus Q1-2019		Q2-2019 versus Q2-2018		Q2-2019 YTD versus Q2-2018 YTD
(in thousands of Canadian dollars)					
Revenue	\$	(211)	\$	(5,149)	\$ (7,326)
Income from operations	\$	149	\$	984	\$ (1,480)
Net income (attributable to shareholders of the Company)	\$	213	\$	1,227	\$ 67

In addition to the translation impact noted above, the Company recorded a foreign exchange loss of \$1.1 million in the second quarter of 2019 (six months ended June 30, 2019 – gain of \$0.2 million), compared to a foreign exchange gain of \$4.5 million for the comparable period in the prior year (six months ended June 30, 2018 – a gain of \$5.4 million), as a result of the impact of changes in foreign exchange rates on monetary assets and liabilities and short term foreign currency intercompany loans within the group, net of hedging activities, primarily in Latin America.

2.7 Net Income (attributable to shareholders of the Company)

Second Quarter 2019 versus First Quarter 2019

Net income increased by \$60.1 million, from a net loss of \$9.1 million during the first quarter of 2019 to a net income of \$51.0 million during the second quarter of 2019. This was mainly due to the \$21.7 million increase in operating income, as explained in *Section 2.2* above, and increases of \$10.2 million in net gain from investment in associate and \$18.2 million in income tax recovery and a \$12.3 million charge recorded in the first quarter of 2019 for costs associated with the repayment of long term debt and the establishment of a new credit facility. This was partially offset by a \$2.0 million increase in finance cost. Please also refer to *Section 6.0 Reconciliation of Non-GAAP measures* for Adjusted Net Income Attributable to Shareholders.

Second Quarter 2019 versus Second Quarter 2018

Net income increased by \$43.7 million, from \$7.3 million during the second quarter of 2018 to \$51.0 million during the second quarter of 2019. This was mainly due to the \$15.9 million increase in operating income, as explained in *Section 2.2* above, and increases of \$9.2 million increase in net gain from investment in associate and \$21.2 million in income tax recovery. This was partially offset by a \$2.5 million increase in finance cost. Please

also refer to *Section 6.0 Reconciliation of Non-GAAP measures* for Adjusted Net Income Attributable to Shareholders.

Six Months ended June 30, 2019 versus Six Months ended June 30, 2018

Net income increased by \$30.8 million, from \$11.1 million during the six-month period ended June 30, 2018 to \$42.0 million during the six-month period ended June 30, 2019, mainly due to the \$12.8 million increase in operating income, as explained in *Section 2.2* above, and increases of \$8.6 million in net gain from investment in associate and \$25.4 million in income tax recovery. This was partially offset by a \$3.3 million increase in finance cost and a \$12.3 million charge recorded in the first quarter of 2019 for costs associated with the repayment of long term debt and the establishment of a new credit facility. Please also refer to *Section 6.0 Reconciliation of Non-GAAP measures* for Adjusted Net Income Attributable to Shareholders.

3.0 SEGMENT INFORMATION

3.1 Pipeline and Pipe Services Segment

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

(in thousands of Canadian dollars, except percentages)	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018 ^(b)	June 30, 2019	June 30, 2018 ^(b)
North America	\$ 245,461	\$ 197,787	\$ 199,037	\$ 443,248	\$ 373,234
Latin America	26,252	29,803	28,329	56,055	65,949
EMAR	77,686	56,441	46,307	134,127	98,855
Asia Pacific	8,954	11,062	25,467	20,016	61,316
Total revenue	\$ 358,353	\$ 295,093	\$ 299,140	\$ 653,446	\$ 599,354
Operating income	\$ 33,568	\$ 4,553	\$ 8,386	\$ 38,121	\$ 16,591
Operating margin^(a)	9.4%	1.5%	2.8%	5.8%	2.8%

(a) Operating margin is defined as operating income divided by revenue and is a non-GAAP measure. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 6.0 - Reconciliation of Non-GAAP Measures*.

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See *Section 7.0 - Financial Reporting in Hyperinflationary Economies*.

Second Quarter 2019 versus First Quarter 2019

Revenue in the second quarter of 2019 increased by \$63.3 million to \$358.4 million, from \$295.1 million in the first quarter of 2019. Revenue was impacted by higher revenues in North America from the addition of the ZCL business and higher activity levels in EMAR, partially offset by lower volumes in Asia Pacific and Latin America:

- In North America, revenue increased by \$47.7 million, or 24%, primarily as a result of the acquisition of ZCL and increased activity in large diameter pipe coating revenue, girth weld inspection services and engineering services. This was partially offset by lower demand for small diameter pipe coating, flexible composite pipe and tubular management services due to the softness in Western Canada and the capital discipline focus of exploration and production operators.
- Revenue in Latin America decreased by \$3.6 million, or 12%, primarily as a result of lower activity levels in Brazil, partially offset by higher revenue in Mexico from the start of the execution of the Liza II project in the Veracruz facility and the accounting for IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina – refer to *Section 7.0 - Financial Reporting in Hyperinflationary Economies*.

- EMAR revenue increased by \$21.2 million, or 38%, primarily due to higher activity levels at the Orkanger, Norway, Ras Al Khaimah, UAE ("RAK") and Leith, Scotland facilities, higher revenue from field joint coating projects in the region and increased pipe weld service activity in the region.
- In Asia Pacific, revenue decreased by \$2.1 million, or 19%, primarily due to lower pipe coating project activity at the Malaysia facility, partially offset by increased activity levels at the Indonesia facility.

In the second quarter of 2019, operating income was \$33.6 million compared to \$4.6 million in the first quarter of 2019, an increase of \$29.0 million. Operating income was positively impacted by a \$32.6 million gain on the sale of land and a \$19.9 million increase in gross profit due to the higher revenue, as explained above, and a 0.6 percentage point increase in gross margin. The increase in the gross margin percentage was primarily due to product and project mix and higher facility utilization and increased absorption of manufacturing overheads. This was partially offset by higher amortization of property, plant, equipment, intangible and ROU assets and the increase in SG&A expenses in the second quarter of 2019, as explained in *Section 2.2* above.

Second Quarter 2019 versus Second Quarter 2018

Revenue in the second quarter of 2019 was \$358.4 million, an increase of \$59.2 million, or 20%, from \$299.1 million in the comparable period of 2018. This was primarily due to higher revenues in North America from the addition of the ZCL business and higher activity levels in EMAR, partially offset by lower revenue in Latin America and Asia Pacific. In addition, segment revenue was adversely affected by the impact on translation of foreign operations, as noted in *Section 2.6* above:

- North America revenue increased by \$46.4 million, or 23%, primarily as a result of the acquisition of ZCL, improved large diameter pipe coating revenue and increased activity levels in pipe weld inspection services. This was partially offset by lower activity levels for small diameter pipe coating and engineering and tubular management services and lower volumes for flexible composite pipe due to the softness in Western Canada and the capital discipline focus of exploration and production operators.
- Revenue in Latin America decreased by \$2.1 million, or 7%, primarily due to lower large project load out activity related to the completion of the Sur de Texas project in 2018, partially offset by the start of the execution of the Liza II project in the Veracruz, Mexico facility in the current year and the accounting for IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina – refer to *Section 7.0 - Financial Reporting in Hyperinflationary Economies*.
- In EMAR, revenue increased by \$31.4 million, or 68%, primarily due to higher activity levels at the Orkanger, Norway, RAK, Leith, Scotland and the Company's Italian facilities, higher revenue from field joint coating projects in the region and increased pipe weld service activity in the region.
- Revenue in Asia Pacific decreased by \$16.5 million, or 65%, mainly due to lower pipe coating project activity at the Indonesia and Malaysia facilities.

In the second quarter of 2019, operating income was \$33.6 million compared to \$8.4 million in the second quarter of 2018, an increase of \$25.2 million. Operating income was positively impacted by a \$32.6 million gain on the sale of land and a decrease in SG&A expenses, as explained in *Section 2.2* above, a \$4.0 million increase in gross profit. The increase in the gross profit was primarily due to the higher revenue, as explained above, partially offset by a 4.3 percentage point decrease in gross margin. The decrease in the gross margin percentage was primarily due to lower large project load out activity in Latin America compared to a year ago, lower utilization in Asia Pacific facilities and the related impact on the absorption of manufacturing overheads. In addition, amortization of property, plant, equipment, intangible and ROU assets was higher in the second quarter of 2019, as explained in *Section 2.2* above.

Six Months ended June 30, 2019 versus Six Months ended June 30, 2018

Revenue in the Pipeline and Pipe Services segment for the six month period ended June 30, 2019 was \$653.5 million, an increase of \$54.1 million, from \$599.4 million in the comparable period in the prior year. Segment revenue increased due to higher revenues in North America from the addition of the ZCL business and higher activity levels in EMAR, partially offset by lower revenue in Asia Pacific and Latin America and the adverse impact on translation of foreign operations, as noted in *Section 2.6* above:

- In North America, revenue increased by \$70.0 million, or 19%, primarily as a result of the acquisition of ZCL, improved large diameter pipe coating revenue and increased activity levels in pipe weld inspection services. This was partially offset by lower activity levels for small diameter pipe coating, tubular management services and lower volumes for flexible composite pipe due to the softness in Western Canada and the capital discipline focus of exploration and production operators.
- Latin America revenue was lower by \$9.9 million, or 15%, mainly due to lower large project load out activity related to the completion of the Sur de Texas project in 2018, partially offset by the start of the execution of the Liza II project in the Veracruz, Mexico facility and higher revenue in Brazil and the accounting for IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina – refer to *Section 7.0 - Financial Reporting in Hyperinflationary Economies*.
- Revenue in EMAR increased by \$35.3 million, or 36%, primarily due to higher activity levels at the Orkanger, Norway, RAK, Leith, Scotland and the Company's Italian facilities, higher revenue from field joint coating projects in the region and increased pipe weld service activity in the region.
- In Asia Pacific, revenue decreased by \$41.3 million, or 67%, mainly due to lower pipe coating project activity at the Kabil, Indonesia and Kuantan, Malaysia facilities.

Operating income for the six month period ended June 30, 2019 was \$38.1 million compared to \$16.6 million for the six month period ended June 30, 2018, an increase of \$21.5 million. Operating income was positively impacted by a \$32.6 million gain on the sale of land and a decrease in SG&A expenses, as explained in *Section 2.2* above. This was partially offset by a \$14.6 million decrease in gross profit due a 5.0 percentage point decrease in gross margin, partially offset by the higher revenue, as explained above. The decrease in the gross margin percentage was primarily due to lower large project load out activity in Latin America compared to a year ago, lower utilization in Asia Pacific facilities and the related impact on the absorption of manufacturing overheads. In addition, amortization of property, plant, equipment, intangible and ROU assets was higher in 2019, as explained in *Section 2.2* above.

3.2 Petrochemical and Industrial Segment

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

(in thousands of Canadian dollars, except percentages)	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
North America	\$ 31,866	\$ 31,655	\$ 31,819	\$ 63,521	\$ 60,064
EMAR	19,759	20,896	19,959	40,655	39,835
Asia Pacific	2,553	2,372	2,834	4,925	5,720
Total Revenue	\$ 54,178	\$ 54,923	\$ 54,612	\$ 109,101	\$ 105,619
Operating income	\$ 8,472	\$ 9,349	\$ 8,736	\$ 17,821	\$ 17,604
Operating margin^(a)	15.6%	17.0%	16.0%	16.3%	16.7%

(a) Operating margin is defined as operating income divided by revenue and is a non-GAAP measure. Non-GAAP measures do not have standardized meanings under GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 6.0 - Reconciliation of Non-GAAP Measures*.

Second Quarter 2019 versus First Quarter 2019

In the second quarter of 2019, revenue decreased by \$0.8 million, or 1%, to \$54.2 million, compared to the first quarter of 2019, primarily due to decreased shipments of heat shrink tubing products, particularly in the automotive sector, partially offset by higher activity levels for wire and cable products.

Operating income of \$8.5 million in the second quarter of 2019 was \$0.9 million, or 9%, lower than in the first quarter of 2019. The decrease in operating income was primarily due to a decrease in gross profit of \$0.7 million resulting from a 0.8 percentage point decrease in gross margin and by the decreased revenue, as explained above. The decrease in gross margin was primarily due to unfavourable product mix.

Second Quarter 2019 versus Second Quarter 2018

Revenue in the second quarter of 2019 decreased by \$0.4 million, or 1%, compared to the second quarter of 2018, primarily due to decreased shipments of heat shrink tubing products, particularly in the automotive sector, partially offset by higher activity levels for wire and cable products.

Operating income in the second quarter of 2019 was \$8.5 million compared to \$8.7 million in the second quarter of 2018, a decrease of \$0.3 million, or 3%. The decrease in operating income was primarily due to a decrease in gross profit of \$0.4 million resulting from the decrease in revenue, as explained above and a 0.6 percentage point decrease in gross margin. The decrease in gross margin was primarily due to unfavourable product mix.

Six Months ended June 30, 2019 versus Six Months ended June 30, 2018

Revenue increased in the six months ended June 30, 2019 by \$3.5 million, or 3%, to \$109.1 million compared to the comparable period in 2018, due to increased shipments of wire and cable products in North America, combined with increased heat shrink product shipments in EMAR, partially offset by lower activity levels in Asia Pacific.

Operating income for the six months ended June 30, 2019 was \$17.8 million compared to \$17.6 million for the comparable period in the prior year. This was mainly due to lower SG&A expenses, as explained in *Section 2.2*, above. This was partially offset by a \$0.5 million decrease in gross profit as a result of a decrease of 1.4 percentage points in gross margin, partially offset by the increase in revenue as explained above. The decrease in gross margin was primarily due to unfavourable product mix.

3.3 Financial and Corporate

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

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

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018 ^(a)	June 30, 2019	June 30, 2018 ^(a)
(in thousands of Canadian dollars)					
Financial and corporate expenses	\$ (11,555)	\$ (7,493)	\$ (8,191)	\$ (19,048)	\$ (15,346)

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Section 7.0 - *Financial Reporting in Hyperinflationary Economies*.

Second Quarter 2019 versus First Quarter 2019

Financial and corporate costs increased by \$4.1 million from \$7.5 million during the first quarter of 2019 to \$11.6 million in the second quarter of 2019. The increase was primarily due to \$5.0 million of ZCL acquisition related costs incurred in the second quarter of 2019. Excluding the impact of the ZCL acquisition costs, financial and corporate costs decreased by \$0.9 million, primarily due to a \$1.6 million decrease in compensation and other related personnel costs.

Second Quarter 2019 versus Second Quarter 2018

Financial and corporate costs increased by \$3.4 million from the second quarter of 2018 to \$11.6 million in the second quarter of 2019. The increase was primarily due to \$5.0 million of ZCL acquisition related costs incurred in the second quarter of 2019. Excluding the impact of the ZCL acquisition costs, financial and corporate costs decreased by \$1.6 million, primarily due to a \$0.7 million decrease in compensation and other related personnel costs and a \$0.7 million decrease in management information systems and other costs.

Six Months ended June 30, 2019 versus Six Months ended June 30, 2018

Financial and corporate costs increased by \$3.7 million from the six month period ended June 30, 2018 to \$19.1 million for the six month period ended June 30, 2019. The increase was primarily due to \$5.5 million of ZCL acquisition related costs incurred in the first half of 2019. Excluding the impact of the ZCL acquisition costs, financial and corporate costs decreased by \$1.8 million, primarily due to a \$2.0 million decrease in management information systems and other costs.

4.0 FORWARD-LOOKING INFORMATION

This document includes certain statements that reflect management's expectations and objectives for the Company's future performance, opportunities and growth, which statements constitute "forward looking information" and "forward looking statements" (collectively "forward looking information") under applicable securities laws. Such statements, other than statements of historical fact, are predictive in nature or depend on future events or conditions. Forward looking information involves estimates, assumptions, judgements and uncertainties. These statements may be identified by the use of forward looking terminology such as "may", "will", "should", "anticipate", "expect", "believe", "predict", "estimate", "continue", "intend", "plan" and variations of these words or other similar expressions. Specifically, this document includes forward looking information in the Outlook Section and elsewhere in respect of, among other things, the achievement of key performance objectives, the growth in capital expenditures in the offshore oil and gas sector, the achievement of annualized run-rate cost synergies and revenue synergies arising from the acquisition by the Company of ZCL, the timing to complete certain pipe coating projects, including the BP Tortue and Liza II projects, the likelihood that projects will be sanctioned in 2019 and beyond, and the impact thereof on the Company's business, the level of financial performance throughout the balance of 2019, the effect of the Company's diversified portfolio of products on revenue and operating income, the demand for the Company's products in the Pipeline and Pipe Services segment and the Petrochemical and Industrial segment of the Company's business, the sufficiency of resources, capacity and capital to meet market demand, to meet contractual obligations and to execute the Company's development and growth strategy, the sufficiency of the Company's processes and systems to operate its business and execute its strategic plan, the expected development of the Company's order backlog and the impact thereof on the Company's revenue and operating income, including the award of contracts on outstanding bids, the impact of global economic activity on the demand for the Company's products, the impact of continuing demand for oil and gas and prior years' absence of investments in larger projects on the level of industry investment in oil and gas infrastructure, the impact of global oil and gas commodity prices, the impact of changing energy demand, supply and prices, the impact and likelihood of changes in competitive conditions in the markets in which the Company participates, the adequacy of the Company's existing accruals in respect of environmental compliance and in respect of litigation and tax matters and other claims generally, and the level of payments under the Company's performance bonds.

Forward looking information involves known and unknown risks and uncertainties that could cause actual results to differ materially from those predicted by the forward looking information. We caution readers not to place undue reliance on forward looking information as a number of factors could cause actual events, results and prospects to differ materially from those expressed in or implied by the forward looking information. Significant risks facing the Company include, but are not limited to: the impact on the Company of changes in the strategy by U.S. oil and gas operators to heighten focus on capital discipline and shareholder returns, the impact on the Company of reduced demand for its products and services, including the suspension or cancellation of existing contracts, as a result of lower investment in global oil and gas extraction and transportation activity following the previous declines in the global price of oil and gas, long term changes in global or regional economic activity and changes in energy supply and demand, which with other factors, impact on the level of global pipeline infrastructure construction; exposure to product and other liability claims; shortages of or significant increases in the prices of raw materials used by the Company; compliance with environmental, trade and other laws; political, economic and other risks arising from the Company's international operations; and fluctuations in foreign exchange rates, as well as other risks and uncertainties described under "Risks and Uncertainties" in the Company's annual MD&A and in the Company's Annual Information Form under "Risk Factors".

These statements of forward looking information are based on assumptions, estimates and analysis made by management in light of its experience and perception of trends, current conditions and expected developments as well as other factors believed to be reasonable and relevant in the circumstances. These assumptions include those in respect of global oil and gas prices, including increases in expenditures on natural gas infrastructures, increased capital expenditures in the global offshore oil and gas segment, modest global economic growth, softening demand in the automotive market and stable demand in the European and North American industrial markets as such apply to the Company's Petrochemical and Industrial segment, the Company's ability to execute projects

under contract, the continued supply of and stable pricing for commodities used by the Company, increases in rail and transportation costs, the availability of personnel resources sufficient for the Company to operate its businesses, the maintenance of operations in major oil and gas producing regions, the successful integration of the business and operations of ZCL, and the ability of the Company to satisfy all covenants under the Credit Facility. The Company believes that the expectations reflected in the forward looking information are based on reasonable assumptions in light of currently available information. However, should one or more risks materialize or should any assumptions prove incorrect, then actual results could vary materially from those expressed or implied in the forward looking information included in this document and the Company can give no assurance that such expectations will be achieved.

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

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

Shawcor will be hosting a Shareholder and Analyst Conference Call and Webcast on Friday, August 9th, 2019 at 9:00 AM ET, which will discuss the Company's Second Quarter 2019 Financial Results.

To participate via telephone, please dial 1-877-776-4039 or 1-315-625-6955. Conference Call ID: 6969553; alternatively, please go to the following website address to participate via webcast:
<https://edge.media-server.com/mmc/p/ubdtytha>

5.0 Additional Information

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

Please visit our website at www.shawcor.com for further details.

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Shawcor Ltd.

Interim Consolidated Balance Sheets (Unaudited)

	June 30, 2019	December 31, 2018 ^(a)
(in thousands of Canadian dollars)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 122,410	\$ 217,264
Short-term investments	–	2,046
Loans receivable	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	22	1,102
Total current assets	689,828	682,394
Non-current Assets		
Loans receivable	–	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	451	226
Contract liabilities	43,047	23,603
Lease liabilities	19,487	1,155
Other liabilities	12,305	7,339
Total current liabilities	339,431	289,246
Non-current Liabilities		
Long-term debt	474,070	267,781
Lease liabilities	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	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 Section 7.0 - *Financial Reporting in Hyperinflationary Economies*.

Shawcor Ltd.

Interim Consolidated Statements of Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands of Canadian dollars, except per share amounts)	2019	2018 ^(a)	2019	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	(32,608)	—	(32,608)	—
Income from Operations	29,376	13,465	37,010	24,230
Income from investments in associates	9,485	293	8,742	177
Finance costs, net	(5,483)	(2,985)	(8,940)	(5,651)
Cost associated with repayment of long-term debt and credit facilities	—	—	(12,308)	—
Net monetary loss	(1,236)	(748)	(1,887)	(1,223)
Income before Income Taxes	32,142	10,025	22,617	17,533
Income tax (recovery) expense	(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				
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)				
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 Section 7.0 - *Financial Reporting in Hyperinflationary Economies*.

Shawcor Ltd.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands of Canadian dollars)	2019	2018 ^(a)	2019	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 Section 7.0 - *Financial Reporting in Hyperinflationary Economies*.

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 ^(a)
	\$	\$	\$	\$	\$	\$
Balance - December 31, 2018	708,833	30,187	271,429	5,418	53,783	1,069,650
Adjustment for IFRS 16 - <i>Leases</i>	—	—	(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	—	—	(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)	—	—	(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 stock 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	—	—	(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 Section 7.0 - *Financial Reporting in Hyperinflationary Economies*.

Shawcor Ltd.

Interim Consolidated Statements of Cash Flows (Unaudited)

(in thousands of Canadian dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018 ^(a)	2019	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	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	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	(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	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 investments in associate	29,171	—	29,171	—
Business acquisition net of cash acquired	(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 in long-term debt	305,155	—	204,693	—
Repayment of lease liabilities	(5,193)	(247)	(13,439)	(546)
Issuance of shares	1	109	357	1,440
Dividends paid to shareholders	(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 Section 7.0 - *Financial Reporting in Hyperinflationary Economies*.

6.0 Reconciliation of Non-GAAP Measures

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

EBITDA and Adjusted EBITDA

EBITDA is a non-GAAP measure defined as earnings before interest, income taxes, depreciation and amortization. Adjusted EBITDA is also a non-GAAP measure defined as EBITDA adjusted for items which do not impact day to day operations. The Company believes that EBITDA and Adjusted EBITDA are useful supplemental measures that provide a meaningful indication of the Company's results from principal business activities prior to the consideration of how these activities are financed or the tax impacts in various jurisdictions and for comparing its operating performance with the performance of other companies that have different financing, capital or tax structures. The Company presents Adjusted EBITDA as a measure of EBITDA that excludes the impact of transactions that are outside the Company's normal course of business or day to day operations. Adjusted EBITDA is used by many analysts in the oil and gas industry as one of several important analytical tools to evaluate financial performance and is a key metric in business valuations. It is also considered important by lenders to the Company and is included in the financial covenants of the Company's debt agreements.

(in thousands of Canadian dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018 ^(b)	2019	2018 ^(b)
Net Income	\$ 50,892	\$ 7,547	\$ 41,971	\$ 11,508
Add:				
Income taxes	(18,750)	2,478	(19,354)	6,025
Finance costs, net	5,483	2,985	8,940	5,651
Amortization of property, plant, equipment, intangible and ROU assets	28,003	21,755	48,611	46,231
Cost associated with repayment of long-term debt and credit facilities	—	—	12,308	—
EBITDA^(a)	\$ 65,628	\$ 34,765	\$ 92,476	\$ 69,415
ZCL acquisition costs and other related items	12,132	—	12,683	—
Hyperinflation adjustment for Argentina ^(b)	749	2,526	1,594	2,944
Gain on sale of land	(32,608)	—	(32,608)	—
Gain on redemption of investment in associate	(9,687)	—	(9,687)	—
ADJUSTED EBITDA^(a)	\$ 36,214	\$ 37,291	\$ 64,458	\$ 72,359

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

(b) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Section 7.0 - *Financial Reporting in Hyperinflationary Economies*.

The Company adopted IFRS 16 in the first quarter of 2019. This new accounting standard requires the Company to recognize a lease ROU asset and a lease liability to reflect the benefit the Company obtains from the underlying asset in the lease and the requirement to pay the amounts included in the lease contract. Under the previous standard, IAS 17 Leases, costs relating to operating leases were recognized on a straight-line basis as a SG&A expense. Under IFRS 16, the Company records an amortization expense as amortization of ROU assets and records an interest expense relating to the lease liability. The amount of the amortization and interest recorded for the three months ended June 30, 2019 was \$4.7 million and \$0.8 million, respectively. The amount of the amortization and interest recorded for the six months ended June 30, 2019 was \$8.7 million and \$1.6 million, respectively. The effect of this new accounting standard increased EBITDA by \$5.5 million and \$10.3 million for the three months and six months ended June 30, 2019, respectively. The standard was adopted prospectively from January 1, 2019, and accordingly the 2018 results have not been affected.

Adjusted Net Income and Adjusted EPS

Adjusted net income is a non-GAAP measure defined as net income before acquisition-related and integration items, including transaction costs and financing fees; cost reduction and integration related initiatives such as separation benefits, retention payments, other exit costs, impact of inventory revaluation adjustment and certain costs associated with integrating an acquired company's operations; gains or losses from early termination of debt and hedging activities; gains and losses on the disposal of land; gain on redemption of investment in associate; asset impairment charges; hyperinflation adjustment for Argentina and the tax effect of the pre-tax adjustments above at applicable tax rates and certain other tax items. We define adjusted EPS as adjusted net income attributable to shareholders divided by the weighted average number of shares and the weighted average number of diluted shares.

(in thousands of Canadian dollars, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018 ^(a)	2019	2018 ^(a)
Net Income	\$ 50,892	\$ 7,547	\$ 41,971	\$ 11,508
Add:				
ZCL acquisition costs and other related items	12,132	—	12,683	—
Hyperinflation adjustment for Argentina	1,597	2,966	3,196	4,113
Cost associated with repayment of long-term debt and credit facilities	—	—	12,308	—
Gain on sale of land	(32,608)	—	(32,608)	—
Gain on redemption of investment in associate	(9,687)	—	(9,687)	—
Tax effect of the above adjustments	(3,541)	(360)	(5,652)	(126)
Adjusted Net Income	\$ 18,785	\$ 10,153	\$ 22,211	\$ 15,495
Adjusted Net Income Attributable to Shareholders	18,937	9,914	22,210	15,124
Adjusted EPS				
Basic	\$ 0.27	\$ 0.14	\$ 0.32	\$ 0.22
Diluted	\$ 0.27	\$ 0.14	\$ 0.32	\$ 0.22

(a) Includes the impact of the adoption of IAS 29, *Financial Reporting in Hyperinflationary Economies* for Argentina as of January 1, 2018. See Section 7.0 - *Financial Reporting in Hyperinflationary Economies*.

Operating Margin

Operating margin is defined as operating income divided by revenue and is a non-GAAP measure. The Company believes that operating margin is a useful supplemental measure that provides meaningful assessment of the business performance of the Company and its Operating Segments. The Company uses this measure as a key indicator of financial performance, operating efficiency and cost control based on volume of business generated.

7.0 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*, 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.

The impact of IAS 29 for selected items on our consolidated statements of income was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(in thousands of Canadian dollars, except per share amounts)				
Revenue	\$ 1,501	\$ (4,519)	\$ 792	\$ (4,271)
Gross profit	441	(1,164)	249	(1,098)
Foreign exchange loss (gain)	(268)	1,206	(179)	1,186
(Loss) Income from operations	(402)	(2,217)	(1,329)	(2,889)
Net monetary loss	(1,236)	(748)	(1,887)	(1,223)
Loss before income taxes	(1,597)	(2,966)	(3,196)	(4,113)
Income tax expense (recovery)	302	(360)	493	(126)
Net Loss	\$ (1,899)	\$ (2,606)	\$ (3,689)	\$ (3,987)
Earnings per Share				
Basic	\$ (0.03)	\$ (0.04)	\$ (0.05)	\$ (0.06)
Diluted	\$ (0.03)	\$ (0.04)	\$ (0.05)	\$ (0.06)