

Shawcor Ltd.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis ("MD&A") is a discussion of the consolidated financial position and results of operations of Shawcor Ltd. ("Shawcor" or the "Company") for the three months and six months ended June 30, 2020 and 2019 and should be read together with Shawcor's unaudited interim consolidated financial statements and accompanying notes for the same periods and MD&A included in the Company's 2019 Annual Report. All dollar amounts in this MD&A are in thousands of Canadian dollars, except per share amounts or unless otherwise stated.

This MD&A and the unaudited interim consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"), which are also Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises in Canada. This MD&A contains forward looking information and reference should be made to Section 13 hereof.

1.0 Executive Overview

Shawcor is a growth oriented, global company with its three segments of Pipeline and Pipe Services, Composite Systems and Automotive and Industrial serving various sectors of the Infrastructure, Energy and Transportation markets. The Company operates eight operating units with manufacturing and service facilities located around the world. The Company is publicly-traded on the Toronto Stock Exchange.

1.1 Core Businesses

Shawcor provides a broad range of products and services, which include high quality pipe coating services, flexible composite pipe, fiberglass reinforced plastic underground storage tanks, onshore and offshore pipeline corrosion and thermal protection, state-of-the-art ultrasonic and radiographic inspection services, tubular management services, heat-shrinkable polymer tubing, and control and instrumentation wire and cable.

The Company and its predecessors have designed, engineered, marketed and sold its products and services worldwide for over 50 years. Shawcor has made substantial investments in research and development initiatives and earned strong customer loyalty based on a history of project execution success.

The Company operates in a highly competitive international business environment with its success attributed to its strategic global locations, its extensive portfolio of proprietary technologies and its commitment to the use of industry-leading business processes and programs.

The primary driver of demand for the Company's products and services is the level of industry activity and investment in energy and infrastructure for resource development, storage and transportation around the globe. This investment in infrastructure is driven by economic activity to engineer, replace, maintain and rehabilitate infrastructure that is at or beyond its useful design life, replace production due to reservoir depletion, requirements for advanced technologies and non-corrosive materials, the need to address geopolitical challenges which are affecting several important producing regions and increased global demand for gas and greener alternatives, specifically LNG development.

As at June 30, 2020, the Company's eight operating units were reported through three operating segments: Pipeline and Pipe Services; Composite Systems and Automotive and Industrial.

Pipeline and Pipe Services

The Pipeline and Pipe Services segment is the largest segment of the Company and accounted for 57% of consolidated revenue for six-months ended June 30, 2020. This segment includes products and services for the Pipeline Performance Group, Pipeline Performance Products, Shaw Pipeline Services, Shawcor Inspection Services and Lake Superior Consulting operating units.

- Pipeline Performance Group (formerly Bredero Shaw) product offerings include specialized internal anticorrosion 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 Performance Products (formerly Pipeline and Pipe Services Products) includes Canusa-CPS, that manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications and Dhatec, that designs and assembles engineered pipe logistics products and services.
- Shaw Pipeline Services provides ultrasonic and radiographic pipeline girth weld inspection services to pipeline operators and construction contractors worldwide for both onshore and offshore pipelines.
- Shawcor Inspection Services provides non-destructive testing services for new oil and gas gathering pipelines and oilfield infrastructure integrity management services.
- Lake Superior Consulting provides pipeline engineering and integrity management services to major North American pipeline operators.

Composite Systems

The Composite Systems segment accounted for 27% of consolidated revenue for the six-months ended June 30, 2020. This segment includes Composite Production Systems and Oilfield Asset Management.

- Composite Production Systems (formerly Flexpipe Systems) manufactures spoolable and stick composite pipe systems and high density polyethylene pipe used for oil and gas gathering, water disposal, carbon dioxide injection pipelines and other applications requiring corrosion resistance and high pressure capabilities. Since the acquisition of ZCL Composites (“ZCL”) in 2019, this operating unit also manufactures reinforced plastic underground storage tanks for the retail fuel, water and wastewater and oil and gas markets.
- Oilfield Asset Management (formerly Guardian) provides a complete range of tubular management services including inventory management systems, mobile inspection, in-plant inspection and the refurbishment and rethreading of drill pipe, production tubing and casing, and tubular products that utilize composite materials.

Automotive and Industrial

The Automotive and Industrial segment, which consists of the Connection Systems operating unit, accounted for 16% of consolidated revenue for the six-months ended June 30, 2020. Operations within this segment utilize polymer and adhesive technologies that were developed for the Pipeline and Pipe Services segment and are now being applied to applications in Automotive and Industrial markets.

- Connection Systems is a global manufacturer of heat-shrinkable products including thin, medium and heavy-walled tubing, sleeves and molded products as well as heat-shrink accessories and equipment.
- Connection Systems also manufactures wire and cable for control, instrumentation, thermocouple, power, marine and robotics applications.

2.0 Financial Highlights

2.1 Selected Financial Information

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands of Canadian dollars, except per share amounts)	2020	2019	2020	2019
Revenue	\$ 266,118	\$ 411,789	\$ 585,145	\$ 761,367
Cost of Goods Sold and Services Rendered	198,342	294,369	432,064	545,743
Gross Profit	67,776	117,420	153,081	215,624
Selling, general and administrative expenses	56,882	88,213	130,771	156,090
Research and development expenses	3,390	3,385	6,797	6,695
Foreign exchange losses (gains)	3,219	1,051	5,180	(174)
Depreciation and amortization	23,356	28,003	47,932	48,611
Gain on sale of land	–	(32,608)	–	(32,608)
Impairment	–	–	203,084	–
Restructuring costs	17,094	–	17,300	–
(Loss) Income from Operations^(a)	(36,165)	29,376	(257,983)	37,010
(Loss) Income from investments in associates	(72)	9,485	92	8,742
Finance costs, net	(5,186)	(5,483)	(11,395)	(8,940)
Cost associated with repayment of long-term debt and credit facilities	–	–	–	(12,308)
Net monetary loss	(370)	(1,236)	(855)	(1,887)
(Loss) Income before Income Taxes	(41,793)	32,142	(270,141)	22,617
Income tax (recovery) expense	(4,904)	(18,750)	1,827	(19,354)
Net (Loss) Income	\$ (36,889)	\$ 50,892	\$ (271,968)	\$ 41,971
Net (Loss) Income attributable to:				
Shareholders of the Company	\$ (36,775)	\$ 51,044	\$ (271,678)	\$ 41,970
Non-controlling interests	(114)	(152)	(290)	1
Net (Loss) Income	\$ (36,889)	\$ 50,892	\$ (271,968)	\$ 41,971
Per Share Information:				
(Loss) Earnings per Share				
Basic	\$ (0.52)	\$ 0.73	\$ (3.86)	\$ 0.60
Diluted	\$ (0.52)	\$ 0.73	\$ (3.86)	\$ 0.60
Adjusted EBITDA^(c)	4,256	\$ 36,214	10,460	\$ 64,458
Adjusted EBITDA (%)	1.6%	8.8%	1.8%	8.5%
Adjusted Operating (Loss) Income^(c)	(18,536)	9,302	(36,388)	18,414
Adjusted Operating (Loss) Income (%)	(7.0%)	2.3%	(6.2%)	2.4%
Adjusted Net (Loss) Income ^{(b)(c)}	(21,945)	18,937	(54,801)	22,210
Adjusted EPS^(c) Basic & Diluted	(0.31)	0.27	(0.78)	0.32

(a) Operating loss in the six month ended June 30, 2020 includes restructuring costs of \$17.3 million and impairment charges of \$203.1 million.

(b) Attributable to shareholders of the Company.

(c) Adjusted EBITDA, Adjusted Operating Income or loss, Adjusted Net Income or Loss and Adjusted EPS are non-GAAP measures. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. See Section 10.0 – Reconciliation of Non GAAP Measures for further details and a reconciliation of these Non-GAAP measures.

2.2 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,	
	2020	2019	2020	2019
U.S. dollar	1.3868	1.3392	1.3642	1.3332
Euro	1.5315	1.5033	1.5075	1.5077
British Pounds	1.7232	1.7193	1.7285	1.7289

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

	Q2-2020 versus Q2-2019		Q2-2020 YTD versus Q2-2019 YTD	
(in thousands of Canadian dollars)				
Revenue	\$	2,817	\$	2,691
Income from operations	\$	(70)	\$	(2,892)
Net income (attributable to shareholders of the Company)	\$	243	\$	(2,544)

In addition to the translation impact noted above, the Company recorded a foreign exchange loss of \$3.2 million in the second quarter of 2020 (six months ended June 30, 2020 – loss of \$5.2 million), compared to a foreign exchange loss of \$1.1 million for the comparable period in the prior year (six months ended June 30, 2019 – gain of \$0.2 million), as a result of the impact of changes in foreign exchange rates on monetary assets and liabilities and short term foreign currency intercompany loans within the group, net of hedging activities, primarily in Latin America.

3.0 Business Developments

Amendments to its Credit Facility

On June 25, 2020, the Company announced that pending completion of an amendment to the terms of the Company's bank credit facility (the "Credit Facility"), the lenders in the Company's banking syndicate had agreed to waive compliance with the leverage and interest coverage ratios under the Credit Facility for the second fiscal quarter ending June 30, 2020 should Shawcor be in default thereof. On July 29, 2020, the Company entered into an amending agreement with its syndicate of lenders under the "Credit Facility. The amendment provides the Company with covenant relief through December 31, 2021.

The principal amendments to the Credit Facility are:

- a waiver of the maximum Net Debt to EBITDA covenant (the "Leverage Ratio") for the fiscal quarter ended September 30, 2020 ("Q3 2020") and change in the maximum Leverage Ratio to:
 - 5.75 to 1.00 for the fiscal quarter ended December 31, 2020 ("Q4 2020")
 - 6.50 to 1.00 for the fiscal quarter ended March 31, 2021 ("Q1 2021")
 - 5.75 to 1.00 for the fiscal quarter ended June 30, 2021 ("Q2 2021")
 - 5.50 to 1.00 for the fiscal quarter ended September 30, 2021 ("Q3 2021")
 - 5.00 to 1.00 for the fiscal quarter ended December 31, 2021 ("Q4 2021")
 - 3.50 to 1.00 for all fiscal quarters thereafter;
- a waiver of the minimum EBITDA to Interest covenant (the "Interest Coverage Ratio") for Q3 2020 and a change in the minimum Interest Coverage Ratio to:
 - 2.25 to 1.00 for Q4 2020
 - 2.00 to 1.00 for Q1 2021

- 2.25 to 1.00 for Q2 2021
- 2.50 to 1.00 for Q3 2021
- 2.75 to 1.00 for Q4 2021
- 3.00 to 1.00 for all fiscal quarters thereafter;
- for the purposes of the amended Leverage Ratio and Interest Coverage Ratio, EBITDA shall be calculated as follows:
 - For Q4 2020: (Q4 2020 EBITDA) x 4
 - For Q1 2021: (Q4 2020 EBITDA + Q1 2021 EBITDA) x 2
 - For Q2 2021: (Q4 2020 EBITDA + Q1 2021 EBITDA + Q2 2021 EBITDA) x 4/3
 - Thereafter, on a trailing 12 month basis;
- until receipt by the banking syndicate of reporting for the fiscal year ended December 31, 2020, the addition of a minimum monthly liquidity test, calculated as aggregate unrestricted cash held in lender's accounts plus undrawn availability under the Credit Facility, of \$290 million;
- a first priority security interest in favour of the banking syndicate is to be provided against the majority of the personal property of the Borrowers and Guarantors under the Credit Facility; and
- increased interest rates and standby and other fees.

The Company will incur fees and expenses of approximately \$1.4 million in Q3 and Q4 2020 to implement these amendments.

Impact of COVID-19

In March 2020, global market downturn caused by the COVID-19 pandemic and recent changes in oil and gas supply and demand resulted in an immediate decrease in demand for products and services supplied by Shawcor. The situation remains dynamic and the ultimate duration and magnitude of the impact on the global economy and on the Company remains unknown at this time.

The implications on Shawcor as a result of decreases in demand may be significant and include:

- Material declines in revenue and cash flows
- Future impairments charges to property, plant and equipment
- Increased risk of non-payment of accounts receivables: and
- Additional restructuring charges

The Company has taken measures to address the reduced current demand and the high degree of uncertainty in future demand. These measures include targeting in excess of \$60 million in annualized selling, general and administrative ("SG&A") and other cost savings and generating in excess of \$40 million in cash from working capital reductions and asset sales.

The Company has completed the following actions to reduce costs, preserve cash and meet its stated targets.

- Suspension of the regular quarterly dividend, commencing in the second quarter.
- Reduced Board compensation by 30%, CEO cash compensation by 20% and Senior Executive cash compensation by 10%.
- Salaried workforce headcount was reduced by over 15%.
- Aggressive cost controls were implemented and are expected to generate over \$10 million in annualized savings. This includes the elimination of all non-essential travel, entertainment and other discretionary spending.

- Planned capital spending has been reduced to the \$40-\$50 million range for 2020 to include only essential maintenance capital and select growth spending to deliver on firm orders, particularly in our Composite Systems Tank business (formerly ZCL Composites).
- The controlled shutdown of 4 pipe coating facilities and several branches, with additional footprint optimization in progress for finalization in the second half of the year.
- Reduced working capital by \$43.7 million, excluding the impact of increased restructuring liabilities, and generated cash proceeds from asset sales of \$10.7 million in the first half of 2020.

The Company has incurred \$17.3 million of restructuring costs to date as a result of the actions completed.

The Company expects the total value of its completed and planned initiatives will meet its stated targets and result in a quarterly normalized SG&A run-rate of approximately \$70 million.

4.0 Results from Operations

4.1 Consolidated Information

Revenue

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

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019 ^(b)	June 30, 2020	June 30, 2019 ^(b)
(in thousands of Canadian dollars)				
Pipeline and Pipe Services	\$ 156,305	\$ 246,780	\$ 336,792	\$ 464,861
Composite Systems	67,095	111,699	156,500	188,713
Automotive and Industrial	43,160	54,178	93,013	109,101
Elimination ^(a)	(442)	(868)	(1,160)	(1,308)
Consolidated revenue	\$ 266,118	\$ 411,789	\$ 585,145	\$ 761,367

(a) Represents the elimination of the inter-segment sales between the Pipeline and Pipe Services segment, the Composite Systems segment and the Automotive and Industrial segment.

(b) Restated to conform with current period presentation of segments.

Second Quarter 2020 versus Second Quarter 2019

Consolidated revenue decreased by \$145.7 million, or 35%, from \$411.8 million during the second quarter of 2019, to \$266.1 million during the second quarter of 2020, reflecting revenue decreases of \$90.5 million in the Pipeline and Pipe Services segment, \$44.6 million in the Composite Systems segment and \$11.0 million in the Automotive and Industrial segment. The decreases in all segments primarily reflect the impact of the global COVID-19 pandemic and the ongoing volatility in the energy markets.

In the Pipeline and Pipe Services segment, revenue in the second quarter of 2020 was \$156.3 million, or 37% lower than in the second quarter of 2019, due to lower revenues in all regions. See *Section 4.2.1 – Pipeline and Pipe Services Segment* for additional disclosure on the segment.

In the Composite Systems segment, revenue was \$44.6 million lower during the second quarter of 2020, compared to \$111.7 million in the second quarter of 2019, primarily due to decreased demand for composite pipe products. See *Section 4.2.2 – Composite Systems Segment* for additional disclosure on the segment.

In the Automotive and Industrial segment, revenue was \$11.0 million lower during the second quarter of 2020, compared to \$54.2 million in the second quarter of 2019, primarily due to decreased demand for automotive products in all regions. See *Section 4.2.3 – Automotive and Industrial Segment* for additional disclosure on the segment.

Six Months ended June 30, 2020 versus Six Months ended June 30, 2019

Consolidated revenue decreased by \$176.2 million, or 23%, from \$761.4 million for the six month period ended June 30, 2019, to \$585.2 million for the six month period ended June 30, 2020, reflecting revenue decreases of \$128.1 million in the Pipeline and Pipe Services segment, \$32.2 million in the Composite Systems segment and \$16.1 million in the Automotive and Industrial segment.

In the Pipeline and Pipe Services segment, revenue in the six month period ended June 30, 2020 was \$336.8 million, or 28% lower than in the six month period ended June 30, 2019, primarily due to lower revenues in North America, Latin America and the Europe, Middle East, Africa and Russia ("EMAR") region, partially offset by higher revenue levels in Asia Pacific regions. See *Section 4.2.1 – Pipeline and Pipe Services Segment* for additional disclosure on the segment.

In the Composite Systems segment, revenue was \$32.2 million lower in the six month period ended June 30, 2020, compared to \$188.7 million in the six month period ended June 30, 2019, primarily due to decreased demand for composite pipe products, partially offset by the benefit related to the inclusion of a full quarter of revenues in the first quarter of 2020 related to the acquisition of ZCL business in April 2019. See *Section 4.2.2 – Composite Systems Segment* for additional disclosure on the segment.

In the Automotive and Industrial segment, revenue was \$16.1 million lower in the six month period ended June 30, 2020, compared to \$109.1 million in the six month period ended June 30, 2019, due to decreased activity levels in North America and EMAR, slightly offset by higher revenue in Asia Pacific region. See *Section 4.2.3 – Automotive and Industrial Segment* for additional disclosure on the segment.

Loss/Income from Operations ("Operating Loss/Income")

The following table sets forth operating (loss) income and Adjusted EBITDA for the following periods:

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
(in thousands of Canadian dollars, except percentages)				
Operating (loss)/income ^(a)	\$ (36,165)	\$ 29,376	\$ (257,983)	\$ 37,010
Operating margin ^(b)	(13.6%)	7.1%	(44.1%)	4.9%
Adjusted EBITDA ^(b)	\$ 4,256	\$ 36,214	\$ 10,460	\$ 64,458
Adjusted EBITDA margin ^(b)	1.6%	8.8%	1.8%	8.5%

(a) Operating loss in the six month ended June 30, 2020 includes \$17.3 million of restructuring costs and \$203.1 million of impairment charge.

(b) Operating margin, Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP measures. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 10.0 – Reconciliation of Non-GAAP Measures* for further details and a reconciliation of these Non-GAAP measures.

In the first quarter of 2020, the Company conducted a review of its impairment testing on property, plant and equipment, intangible assets and goodwill due to the current uncertain business climate brought about by the global COVID-19 pandemic and the volatility in the energy markets. As a result of this review, the Company recorded impairment charges of \$203.1 million due to the current market conditions for certain assets and the Company's assessment of the related future demand and market recovery. The impairment charges included \$143.6 million and \$46.0 million on intangible assets and goodwill for Pipeline Performance Group (formerly Bredero Shaw) and Shawcor Inspection Services, respectively, and \$13.4 million on assets at two U.S. land pipe coating facilities and certain assets related to large diameter products in its Composite Systems facility in Alberta.

Operating Income in the first six months of 2020 includes an additional quarter of income from the ZCL composite tank business as compared to the same period in 2019 as the acquisition of the ZCL business was completed in April 2019, which had a net positive impact on the first half of 2020 results.

In response to the current challenging business conditions, the Company also completed several cost reduction and cash preservation initiatives. As a result, a significant reduction of the salaried workforce and the shutdown of certain facilities and branch offices in the second quarter, the Company recorded restructuring costs of \$17.1 million in the period.

Second Quarter 2020 versus Second Quarter 2019

The second quarter of 2020 had an Operating Loss of \$36.2 million, a decrease compared to the \$29.4 million Operating Income in the second quarter of 2019. The decrease is primarily due to a \$49.6 million decrease in gross profit, the negative impact of the \$17.1 million restructuring costs in the current quarter and a \$32.6 million gain on sale of land in the second quarter of 2019. This is partially offset by a decrease of \$31.3 million in SG&A expenses and a decrease of \$4.6 million in depreciation and amortization of intangible assets, property, plant, equipment and lease right-of-use (“ROU”) assets.

The \$49.6 million decrease in gross profit resulted from the \$145.7 million decrease in revenue, as explained above, and a 3.0 percentage point decrease in gross margin from the second quarter of 2019. The decrease in the gross margin percentage was primarily due to product and project mix, the decrease in revenue and the impact of lower utilization of facilities on the absorption of manufacturing overheads due to the impact of global COVID-19 pandemic and ongoing volatility in the energy markets.

SG&A expenses decreased by \$31.3 million compared to the second quarter of 2019, primarily due to the completed cost control and headcount reduction initiatives that resulted in decreases of \$9.5 million in compensation related costs (includes a \$5.5 million reduction in incentive-based compensation), \$3.6 million in travel and entertainment expenses and \$1.6 million in provision costs. The current quarter also benefited from the receipt of COVID-19 related government subsidies of \$7.5 million and the absence of non-recurring integration and acquisition costs related to the ZCL business in the current quarter compared to the \$8.7 million incurred in the second quarter of 2019.

Adjusted EBITDA was \$4.3 million in the second quarter of 2020 compared to \$36.2 million in the second quarter of 2019. See *Section 10.0 Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted EBITDA.

Six Months ended June 30, 2020 versus Six Months ended June 30, 2019

The first half of 2020 had an Operating Loss of \$258.0 million, a significant decrease compared to the \$37.0 million Operating Income in the first half of 2019. The decrease is primarily due to the negative impact of the \$203.1 million impairment charge, a \$62.5 million decrease in gross profit, \$17.3 million in restructuring costs, additional \$5.4 million in net foreign exchange losses and a \$32.6 million gain on sale of land in the second quarter of 2019, partially offset by \$25.3 million decrease in SG&A expenses.

The \$62.5 million decrease in gross profit resulted from the \$176.2 million decrease in revenue, as explained above, and a 2.2 percentage point decrease in the gross margin from the six month period of 2019. The decrease in the gross margin percentage was primarily due to product and project mix, the decrease in revenue and the impact of lower utilization of facilities on the absorption of manufacturing overheads primarily due to the impact of global COVID-19 pandemic and the volatility in the energy markets.

SG&A expenses decreased by \$25.3 million compared to the first half of 2019, primarily due to the completed cost control and headcount reduction initiatives that resulted in decreases of \$17.7 million in compensation related costs (includes a \$12.7 million reduction in incentive-based compensation) and \$4.2 million in travel and entertainment expenses. The current year-to-date period also benefited from the receipt of COVID-19 related government subsidies of \$7.5 million in the second quarter and the absence of non-recurring integration and acquisition costs related to the ZCL business in the current period compared to the \$9.3 million incurred in the prior year period. This was partially offset by the current period including an additional quarter of ongoing SG&A expenses of \$5.6 million for the ZCL business as it was acquired in April 2019 and increases of \$4.0 million of provisions and equipment expenses and \$2.1 million of professional fees.

Adjusted EBITDA was \$10.5 million in the six month period ended June 30, 2020 compared to \$64.5 million in the six month period ended June 30, 2019. See *Section 10.0 Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted EBITDA.

Income from Investments in Associates

The following table sets forth the income from investments in associates for the following periods:

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
(in thousands of Canadian dollars)				
Income (Loss) from investments in associates	\$ (72)	\$ 9,485	\$ 92	\$ 8,742

The Company has equity-accounted investments in Zedi Inc. ("Zedi") and Power-Feed-Thru Systems and Connectors, LLC ("PFT"). In 2020, the Company received \$8.9 million of proceeds pertaining to the partial redemption of the investment in Zedi in the first quarter. During the second quarter of 2019, Zedi disposed of its software and automation businesses which represented a substantial part of its operations and as a result, the Company received \$29.2 million of proceeds and recorded a gain of \$9.7 million.

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, 2020	June 30, 2019	June 30, 2020	June 30, 2019
(in thousands of Canadian dollars)				
Interest income on short-term deposits	\$ (58)	\$ (428)	\$ (213)	\$ (1,352)
Interest expense on long-term debt	3,365	4,469	7,906	6,741
Interest expense, other	914	612	1,746	1,991
Interest expense on ROU assets	965	830	1,956	1,560
Finance costs, net	\$ 5,186	\$ 5,483	\$ 11,395	\$ 8,940

Second Quarter 2020 versus Second Quarter 2019

In the second quarter of 2020, net finance costs were \$5.2 million, compared to net finance costs of \$5.5 million during the second quarter of 2019. The decrease in net finance costs was primarily due to a \$1.1 million decrease in interest expense on long term debt, primarily due to the decrease in the average borrowing rate. This was partially offset by a \$0.4 million increase in other financing expenses and a \$0.4 million decrease of interest income on short-term deposits.

Six Months ended June 30, 2020 versus Six Months ended June 30, 2019

For the six months ended June 30, 2020, net finance costs were \$11.4 million, compared to \$8.9 million in the comparable period in the prior year. The increase in net finance costs was primarily due to a \$1.2 million increase in interest expense on long term debt, primarily due to the increase in indebtedness arising from the acquisition of ZCL in April 2019 and a reduction of \$1.1 million in interest income.

Income Taxes

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

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
(in thousands of Canadian dollars)				
Income tax (recovery) expense	\$ (4,904)	\$ (18,750)	\$ 1,827	\$ (19,354)

Second Quarter 2020 versus Second Quarter 2019

The Company recorded an income tax recovery of \$4.9 million (12% of loss before income taxes) in the second quarter of 2020, compared to an income tax recovery of \$18.8 million (58% of income before income taxes) in the second quarter of 2019. The effective tax rate in second quarter of 2020 was lower than the Company's statutory income tax rate of 26% primarily due to losses generated in the quarter where the Company is unable to record a tax benefit, and the mix of jurisdictions where the income was earned.

Six Months ended June 30, 2020 versus Six Months ended June 30, 2019

The Company recorded an income tax expense of \$1.8 million (0.7% of loss before income taxes) in the first half of 2020, compared to an income tax recovery of \$19.4 million (86% of income before income taxes) in the first half of 2019. The effective tax rate in the first half of 2020 was lower than the Company's statutory income tax rate of 26% primarily due to the impact of income taxes on the impairment charge recorded in the first quarter of 2020, losses generated in the period where the Company is unable to record a tax benefit, and the mix of jurisdictions where the income was earned.

4.2 Segment Information

4.2.1 Pipeline and Pipe Services Segment

The following table sets forth, by geographic location, the revenue, Operating (Loss) Income and Adjusted EBITDA 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, 2020	June 30, 2019 ^(a)	June 30, 2020	June 30, 2019 ^(a)
North America	\$ 82,313	\$ 137,795	\$ 169,401	\$ 260,408
Latin America	6,215	24,301	26,277	52,754
EMAR	45,110	76,528	102,674	132,969
Asia Pacific	22,667	8,156	38,440	18,730
Total revenue	\$ 156,305	\$ 246,780	\$ 336,792	\$ 464,861
Operating (Loss) Income^(b)	\$ (23,977)	\$ 31,496	\$ (239,650)	\$ 18,829
Operating margin^(c)	(15.3%)	12.8%	(71.2%)	4.1%
Adjusted EBITDA^(c)	\$ (3,128)	\$ 15,168	\$ (11,073)	\$ 17,690
Adjusted EBITDA margin^(c)	(2.0%)	6.1%	(3.3%)	3.8%

(a) Restated to conform with current period presentation of segments.

(b) Operating loss in the six month period ended June 30, 2020 includes \$8.0 million restructuring costs and \$193.3 million of impairment charges.

(c) Operating margin, Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP measures. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. See Section 10.0 – Reconciliation of Non-GAAP Measures for further details and a reconciliation of these Non-GAAP measures.

Second Quarter 2020 versus Second Quarter 2019

Revenue in the second quarter of 2020 was \$156.3 million, a decrease of \$90.5 million, or 37%, from \$246.8 million in the comparable period of 2019. This was primarily due to lower revenues in North America, Latin America and EMAR, partially offset by higher revenue in Asia Pacific:

- North America revenue decreased by \$55.5 million, or 40%, primarily as a result of lower activity levels for small and large diameter pipe coating and girth weld inspection services in the region, partially offset by higher revenue from engineering services.
- Revenue in Latin America decreased by \$18.1 million, or 74%, primarily due to lower activity levels in the Brazil and Argentina facilities and lower revenue from the Liza II project in Veracruz, Mexico facility compared to the prior year quarter.
- In EMAR, revenue decreased by \$31.4 million, or 41%, primarily due to lower activity levels at Ras Al Khaimah, UAE (“RAK”) facilities, the Leith, Scotland and Italy facilities and lower revenue from field joint coating projects in the region. This was partially offset by higher revenue levels at the Orkanger, Norway facility.
- Revenue in Asia Pacific increased by \$14.5 million, or 178%, mainly due to higher pipe coating project activity at the Kabil, Indonesia facility, partially offset by lower revenue from the Kuantan, Malaysia facility.

In the second quarter of 2020, the Operating Loss was \$24.0 million, as compared to an Operating Income of \$31.5 million in the second quarter of 2019. The decline reflects a \$30.4 million decrease in gross profit and \$7.8 million of restructuring costs, partially offset by a decrease of \$12.3 million in SG&A, which includes \$2.1 million of COVID-19 related government subsidies received in the second quarter, as explained in *Section 4.1* above, and a decrease in depreciation and amortization of \$3.3 million. The second quarter of 2019 included a gain on sale of land of \$32.5 million. The decrease in the gross profit was primarily due to the lower revenue, as explained above, and a 3.0 percentage point decrease in gross margin. The decrease in the gross margin percentage was primarily due to product and project mix, lower utilization in North America, Latin America and EMAR facilities and the related impact on the absorption of manufacturing overheads.

Adjusted EBITDA in the second quarter of 2020 was negative \$3.1 million compared to positive \$15.2 million in the second quarter of 2019. See *Section 10.0 Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted EBITDA.

Six Months ended June 30, 2020 versus Six Months ended June 30, 2019

Revenue in the first half of 2020 was \$336.8 million, a decrease of 128.1 million, or 28%, from \$464.9 million in the comparable period of 2019. This was primarily due to lower revenues in North America, Latin America and EMAR, partially offset by higher revenue in Asia Pacific:

- North America revenue decreased by \$91.0 million, or 35%, primarily as a result of lower activity levels for small and large diameter pipe coating and girth weld inspection services in the region, partially offset by higher revenue from engineering services. The first half of 2020 was also negatively impacted by the delay of revenue in the first quarter caused by the execution of work to address the fourth quarter 2019 service quality event at the Channelview, Texas facility.
- Revenue in Latin America decreased by \$26.5 million, or 50%, primarily due to lower activity levels in Brazil and Argentina, partially offset by higher revenues from the Liza II project in the Veracruz, Mexico facility compared to the first half of the prior year.

- In EMAR, revenue decreased by \$30.3 million, or 23%, primarily due to lower revenue levels at the Leith, Scotland and Italy facilities, partially offset by higher activity levels at the Orkanger, Norway and RAK facilities and higher revenue from field joint coating projects in the region.
- Revenue in Asia Pacific increased by \$19.7 million, or 105%, mainly due to higher pipe coating project activity at the Kabil, Indonesia facility, partially offset by lower revenue from the Kuantan, Malaysia facility.

In the first half of 2020, Operating Loss was \$239.7 million compared to Operating Income of \$18.8 million in the comparable prior year period. The decrease reflects the negative impact of the \$193.3 million impairment charge recorded, \$8.0 million of restructuring costs and a \$38.2 million decrease in gross profit, which were partially offset by a decrease of \$10.2 million in SG&A expenses, which includes \$2.1 million of COVID-19 related government subsidies received in the second quarter, as explained in *Section 4.1* above, and a decrease in depreciation and amortization of \$4.1 million. The second quarter of 2019 included a gain on sale of land of \$32.5 million. The decrease in the gross profit was primarily due to the lower revenue, as explained above, and a 1.3 percentage point decrease in gross margin. The decrease in the gross margin percentage was primarily due to product and project mix, lower utilization in North America and Latin America facilities and the related impact on the absorption of manufacturing overheads.

Adjusted EBITDA in the first half of 2020 was negative \$11.1 million compared to positive \$17.7 million in the first half of 2019. See *Section 10.0 Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted EBITDA.

4.2.2 Composite Systems Segment

The following table sets forth, by geographic location, the revenue, Operating (Loss) Income and Adjusted EBITDA for the Composite Systems segment for the following periods:

(in thousands of Canadian dollars, except percentages)	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019 ^(a)	June 30, 2020	June 30, 2019 ^(a)
North America	\$ 65,884	\$ 107,791	\$ 153,829	\$ 182,967
Latin America	774	1,952	1,837	3,302
EMAR	374	1,158	771	1,158
Asia Pacific	63	798	63	1,286
Total revenue	\$ 67,095	\$ 111,699	\$ 156,500	\$ 188,713
Operating (Loss) Income^(b)	\$ (4,356)	\$ 2,072	\$ (12,325)	\$ 19,292
Operating margin^(c)	(6.5%)	1.9%	(7.9%)	10.2%
Adjusted EBITDA^(c)	\$ 7,710	\$ 19,093	\$ 18,122	\$ 40,304
Adjusted EBITDA margin^(c)	11.5%	17.1%	11.6%	21.4%

(a) Restated to conform with current period presentation of segments.

(b) Operating loss in the six month period ended June 30, 2020 includes \$3.8 million of restructuring costs and \$9.8 million of impairment charges.

(c) Operating margin, Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP measures. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 10.0 – Reconciliation of Non-GAAP Measures* for further details and a reconciliation of these Non-GAAP measures.

Second Quarter 2020 versus Second Quarter 2019

Revenue in the second quarter of 2020 decreased by \$44.6 million, or 40%, compared to the second quarter of 2019, primarily due to the negative impact of global COVID-19 pandemic and the volatility in the energy markets. North America revenue decreased by \$41.9 million, or 39%, primarily due to lower demand for composite pipe products which resulted from the continued capital discipline focus of exploration and production operators and low oil and gas prices. In addition, tubular management service activity levels in Western Canada remain depressed. This was partially offset by higher revenues in the composite tank business as retail fuel demand remains strong.

Operating Loss in the second quarter of 2020 was \$4.4 million compared to an Operating Income of \$2.1 million in the second quarter of 2019. The decrease reflects the negative impact of the \$3.8 million restructuring costs and a \$13.5 million decrease in gross profit, partially offset by a decrease of \$8.6 million in SG&A expenses, which includes \$2.7 million of COVID-19 related government subsidies received in the second quarter, as explained in *Section 4.1* above. The decrease in gross profit was primarily due to the decrease in revenue, as explained above, and a 1.1 percentage point decrease in gross margin. The decrease in the gross margin was primarily driven by the lower utilization in the composite pipe facilities and the related impact on the absorption of manufacturing overheads, partially offset by higher margins in the composite tank business due to higher plant utilization and process improvements.

Adjusted EBITDA in the second quarter of 2020 was \$7.7 million compared to \$19.1 million in the second quarter of 2019. See *Section 10.0 Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted EBITDA.

Six Months ended June 30, 2020 versus Six Months ended June 30, 2019

Revenue in the first half of 2020 decreased by \$32.2 million, or 17%, compared to the first half of 2019, primarily due to the negative impact of the ongoing global COVID-19 pandemic and the volatility in the energy markets. North America revenue decreased by \$29.1 million, or 16%, primarily due to lower demand level in composite pipe products, attributed to the capital discipline focus of exploration and production operators and low oil and gas prices. In addition, tubular management service activity levels were lower in Western Canada. These decreases were partially offset by the increased revenue in the composite tank business from continued strong demand in the retail fuel market. In addition, the current year-to-date period includes an additional quarter of revenues from the ZCL business which was acquired in April 2019.

Operating Loss in the first half of 2020 was \$12.3 million compared to an Operating Income of \$19.3 million in the first half of 2019. The operating results for the current period include an additional quarter of operating income from the composite tank business as the ZCL business was acquired in April 2019. The decrease reflects the negative impact of the \$3.8 million restructuring costs, the \$9.8 million impairment charge recorded in the first quarter of this year and a \$17.2 million decrease in gross profit partially offset by a decrease of \$1.2 million in SG&A expenses, as explained in *Section 4.1* above. The decrease in gross profit was primarily due to the decrease in revenue, as explained above, and a 4.2 percentage point decrease in gross margin. The decrease in the gross margin was primarily due to lower utilization in the composite pipe facility and the related impact on the absorption of manufacturing overheads partially offset by higher margins in the composite tank business due to higher plant utilization and process improvements. The decrease in SG&A expenses reflects reduced costs as result of restructuring initiatives completed, the absence of non-recurring integration and acquisition costs related to the ZCL business in the current period compared to the \$3.8 million incurred in the prior year period and \$2.7 million of COVID-19 related government subsidies received in the second quarter. This was partially offset by the current period including an additional quarter of ongoing SG&A expenses of \$5.6 million for the ZCL business as it was acquired in April 2019.

Adjusted EBITDA in the first half of 2020 was \$18.1 million compared to \$40.3 million in the first half of 2019. See *Section 10.0 Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted EBITDA.

4.2.3 Automotive and Industrial Segment

The following table sets forth, by geographic location, the revenue, Operating (Loss) Income and operating margin for the Automotive and Industrial segment for the following periods:

(in thousands of Canadian dollars, except percentages)	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
North America	\$ 30,006	\$ 31,866	\$ 59,939	\$ 63,521
EMAR	9,988	19,759	28,132	40,655
Asia Pacific	3,166	2,553	4,942	4,925
Total revenue	\$ 43,160	\$ 54,178	\$ 93,013	\$ 109,101
Operating (Loss) Income^(a)	\$ (124)	\$ 8,472	\$ 7,473	\$ 17,821
Operating margin^(b)	(0.3%)	15.6%	8.0%	16.3%
Adjusted EBITDA^(b)	\$ 5,290	\$ 9,621	\$ 14,009	\$ 20,046
Adjusted EBITDA margin^(a)	12.3%	17.8%	15.1%	18.4%

(a) Operating loss in current period includes \$4.2 million of restructuring costs.

(b) Operating margin, Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP measures. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 10.0 – Reconciliation of Non-GAAP Measures* for further details and a reconciliation of these Non-GAAP measures.

Second Quarter 2020 versus Second Quarter 2019

Revenue in the second quarter of 2020 decreased by \$11.0 million, or 20%, compared to the second quarter of 2019, due to lower demand for heat shrink tubing products in the automotive sector across all regions, partially offset by higher shipments for wire and cable products in North America. The decline in the automotive sector reflects that a majority of global automotive OEM assembly plants temporarily halted production and suspended operations late in the first quarter which continued for much of the second quarter as a result of COVID-19.

Operating Loss in the second quarter of 2020 was \$0.1 million compared to an Operating Income of \$8.5 million in the second quarter of 2019. The decrease in Operating Income was primarily due to the negative impact of \$4.2 million in restructuring costs and a decrease in gross profit of \$5.8 million, partially offset by a decrease of \$1.4 million in SG&A expenses, which includes \$0.7 million of COVID-19 related government subsidies received in the second quarter, as explained in *Section 4.1* above. The decrease in gross profit was primarily due to the decrease in revenue, as explained above, and a 6.1 percentage point decrease in gross margin. The decrease in gross margin was primarily due to product mix and lower plant utilization and the related impact on the absorption of manufacturing overheads.

Adjusted EBITDA in the second quarter of 2020 was \$5.3 million compared to \$9.6 million in the second quarter of 2019. See *Section 10.0 Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted EBITDA.

Six Months ended June 30, 2020 versus Six Months ended June 30, 2019

Revenue in the first half of 2020 decreased by \$16.1 million, or 15%, compared to the first half of 2019, due to lower demand for heat shrink tubing products in the automotive sector across all regions, partially offset by higher shipments for wire and cable products in North America. The decline in the automotive sector reflects that a majority of global automotive OEM assembly plants temporarily halted production and suspended operations late in the first quarter which continued for much of the second quarter as a result of COVID-19.

Operating Income in the first half of 2020 was \$7.5 million, lower compared to \$17.8 million in the first half of 2019. The decrease in Operating Income was primarily due to the negative impact of \$4.2 million in restructuring costs and a decrease in gross profit of \$7.1 million, partially offset by a decrease of \$1.1 million in SG&A expenses,

which includes \$0.7 million of COVID-19 related government subsidies received in the second quarter, as explained in *Section 4.1* above. The decrease in gross profit was primarily due to the decrease in revenue, as explained above, and a 2.7 percentage point decrease in gross margin. The decrease in gross margin was primarily due to due to product mix, lower plant utilization and the related impact on the absorption of manufacturing overheads.

Adjusted EBITDA in the first half of 2020 was \$14.0 million compared to \$20.1 million in the first half of 2019. See *Section 10.0 Reconciliation of Non-GAAP Measures* for additional disclosures regarding Adjusted EBITDA.

4.2.4 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 for the following periods:

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
(in thousands of Canadian dollars)				
Financial and corporate expenses	\$ (7,708)	\$ (12,664)	\$ (13,481)	\$ (18,932)

Second Quarter 2020 versus Second Quarter 2019

Financial and corporate costs in the second quarter of 2020 were \$7.7 million compared to \$12.7 million in the second quarter of 2019. The decrease was primarily due to the absence of non-recurring acquisition costs related to the ZCL business in the current quarter compared to the \$5.0 million incurred in the prior year quarter. The second quarter also reflects a \$1.8 million decrease in incentive-based compensation costs, partially offset by \$2.0 million of COVID-19 related government subsidies received in the second quarter, increases of \$2.2 million in foreign exchange losses and \$1.2 million in restructuring costs.

Six Months ended June 30, 2020 versus Six Months ended June 30, 2019

Financial and corporate costs in the first half of 2020 were \$13.5 million compared to \$18.9 million in the first half of 2019. The decrease was primarily due to the absence of non-recurring acquisition costs related to the ZCL business in the current quarter compared to the \$5.0 million incurred in the prior year quarter. The second quarter also reflects a \$7.8 million decrease in incentive-based compensation costs, partially offset by increases of \$5.4 million in foreign exchange losses, \$1.2 million in restructuring costs and \$2.0 million of COVID-19 related government subsidies received in the second quarter.

5.0 Liquidity and Capitalization

As at June 30, 2020, the Company had cash and cash equivalents totalling \$103.7 million (December 31, 2019 – \$98.2 million) and had unutilized lines of credit available to use of \$296.7 million (December 31, 2019 – \$275.6 million).

The effects of the COVID-19 pandemic and the rapid decline in oil prices has adversely impacted demand for the Company's products and services and its operating results, financial position and access to sources of liquidity. With the uncertainty about the extent and depth of the market contraction and its impact on financial results, the Company turned its focus in the second quarter on the reduction of costs and cash preservation to protect its balance sheet. As communicated in April 2020, the Company targeted \$60 million in sustainable annualized SG&A savings and \$40 million in incremental cash generation. The Company has made significant progress to date on these targets by reducing CEO, executive and Board compensation, reducing the salaried workforce levels by over 15%,

optimizing its footprint with the closure of four North American pipe coating facilities and several branch offices and making significant cuts to other operating costs and capital budgets. As a result of these efforts the Company is on track to meet its goal of a quarterly normalized SG&A run rate of \$70 million. During the second quarter, the Company also delivered positive cash flow of \$35 million from reduced working capital, excluding the impact of increased restructuring liabilities, and \$1.6 million from proceeds of asset sales. Based on these actions completed and planned, its diversified business and current backlog, the Company expects to generate sufficient cash flows to fund its operations, working capital requirements and capital program.

Prior to June 30, 2020, the Company had obtained from its banking syndicate a waiver of compliance with the leverage and interest coverage ratios under the Credit Facility for its second quarter ending June 30, 2020 should the Company be in default thereof. The waiver was conditional on the completion of the renegotiation of the Credit Facility prior to a specific date. Due to the conditionality of the waiver, the Company did not have the unconditional right to defer the repayment of the debt beyond twelve months. As such, the outstanding balance was required to be presented as a current liability under International Financial Reporting Standards (“IFRS”). Subsequent to the quarter end, the Company successfully negotiated an amending agreement with its banking syndicate prior to the expiry of the conditional waiver, as explained in Section 5.5 below, that provides covenant relief through December 2021. As of July 29, 2020, the date of completion of the amendments to the Credit Facility, the Credit Facility debt would be presented as a non-current liability and unutilized capacity would be available if the Company was in compliance with the covenants as stated in the amending agreement.

The following table sets forth the Company’s cash flows by activity and cash balances for the following periods:

(in thousands of Canadian dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net (loss) income	\$ (36,889)	\$ 50,892	\$ (271,968)	\$ 41,971
Non-cash items	18,715	(26,720)	248,676	(1,080)
Other	(1,258)	(5,628)	(4,643)	(3,746)
Net change in non-cash working capital and foreign exchange	46,041	(39,486)	54,653	(40,142)
Cash provided by (used in) operating activities	26,609	(20,942)	26,718	(2,997)
Cash used in investing activities	(1,507)	(225,285)	(1,764)	(242,690)
Cash (used in) provided by financing activities	(5,710)	270,680	(22,566)	152,963
Effect of foreign exchange on cash and cash equivalents	(2,014)	59	3,115	(2,130)
Net Change in Cash and Cash Equivalents	17,378	24,512	5,503	(94,854)
Cash and cash equivalents at beginning of period	86,343	97,898	98,218	217,264
Cash and Cash Equivalents at End of Period	\$ 103,721	\$ 122,410	\$ 103,721	\$ 122,410

5.1 Cash Provided By/Used in Operating Activities

Second Quarter 2020 versus Second Quarter 2019

Cash provided by operating activities was \$26.6 million in the second quarter of 2020, an increase of \$47.6 million compared to the \$20.9 million cash used in operating activities in the second quarter of 2019. This was mainly due to a net increase of \$85.5 million in non-cash working capital and foreign exchange and a \$45.4 million net increase in non-cash items. This was partially offset by a \$87.8 million decrease in net income.

Six Months ended June 30, 2020 versus Six Months ended June 30, 2019

Cash provided by operating activities was \$26.7 million in the six month period ended June 30, 2020, an increase of \$29.7 million compared to the \$3.0 million cash used in operating activities in the six month period ended June 30, 2019. This was primarily due to a \$249.8 million increase in non-cash items (which included \$203.1 million in impairment charges recorded in the first quarter of 2020) and a net increase of \$94.8 million in non-cash working capital and foreign exchange, partially offset by a \$313.9 million decrease in net income (which included \$203.1 million in impairment charges recorded in the first quarter of 2020).

5.2 Cash Used in Investing Activities

Second Quarter 2020 versus Second Quarter 2019

Cash used in investing activities decreased by \$223.8 million, from \$225.3 million in the second quarter of 2019 to \$1.5 million in the second quarter of 2020. This was primarily due to a \$291.5 million business acquisition net of cash acquired arising from the ZCL acquisition in the second quarter of 2019 and a \$5.4 million decrease in the purchase of property, plant and equipment. This was partially offset by a \$38.6 million decrease in proceeds on the disposal of property, plant, and equipment, a \$29.2 million decrease in redemption of investment in associates and a \$5.1 million increase in short-term investments.

Six Months ended June 30, 2020 versus Six Months ended June 30, 2019

Cash used in investing activities decreased by \$240.9 million, from \$242.7 million in the six month period ended June 30, 2019 to \$1.8 million in the six month period ended June 30, 2020. This was primarily due to a \$291.5 million business acquisition net of cash acquired arising from the ZCL acquisition in the second quarter of 2019 and a \$10.9 million decrease in the purchase of property, plant and equipment. This was partially offset by a \$38.9 million decrease in proceeds on disposal of property, plant, and equipment, a \$20.3 million decrease in redemption of investment in associates and a \$2.0 million increase in short-term investments.

5.3 Cash Used in Financing Activities

Second Quarter 2020 versus Second Quarter 2019

The change in cash provided by financing activities was \$276.4 million. In the second quarter of 2019 the cash provided from financing activities was \$270.6 million and compares to \$5.7 million cash used in financing activities in the second quarter of 2020. This change was primarily due to the \$287.0 million net increase in long-term debt and bank indebtedness to finance the ZCL acquisition in the second quarter of 2019. This was partially offset by the impact of the suspension of the Company's quarterly dividend of \$10.5 million implemented beginning with the second quarter of 2020.

Six Months ended June 30, 2020 versus Six Months ended June 30, 2019

The change in cash provided by financing activities was \$175.5 million. In the six months ended June 30, 2019 the cash provided from financing activities was \$153.0 million and compares to \$22.6 million cash used in financing activities in the six month period ended June 30, 2020. This change was primarily due to the \$287.0 million net increase in bank indebtedness and long-term debt to finance the ZCL acquisition in the second quarter of 2019 offset by a \$99.3 million repayment of long-term debt in the first quarter of 2019. In the six months ended June 30, 2020, the impact of the suspension of the quarterly dividend of \$10.5 million implemented beginning with the second quarter of 2020, coupled with a \$2.3 million increase in lease liabilities was offset by \$0.9 million payment of deferred financing cost.

5.4 Liquidity and Capital Resource Measures

Accounts Receivables

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

(in thousands of Canadian dollars, except DSO)	June 30, 2020	December 31, 2019	Change
Average trade accounts receivable	\$ 207,050	\$ 228,461	\$ (21,411)
DSO ^(a)	70	62	8

(a) DSO is a non-GAAP measure. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 10.0 – Reconciliation of Non GAAP Measures* for further details and a reconciliation of these Non-GAAP measures.

Average trade accounts receivable decreased by \$21.4 million, from \$228.5 million as at December 31, 2019, to \$207.1 million as at June 30, 2020, primarily due to decreased revenue in the second quarter of 2020 compared to the fourth quarter of 2019. DSO increased by 8 days, primarily as a result of the timing of billing and collections in the second quarter of 2020 compared to the fourth quarter of 2019.

Inventory

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

(in thousands of Canadian dollars)	June 30, 2020	December 31, 2019	Change
Inventories	\$ 174,558	\$ 160,792	\$ 13,766

Inventories increased by \$13.8 million, or 8.6%, as at June 30, 2020 compared to December 31, 2019. This increase is primarily due to a \$10.7 million increase in raw materials and supplies and a \$5.4 million increase in finished goods.

Accounts Payable

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

(in thousands of Canadian dollars, except DPO)	June 30, 2020	December 31, 2019	Change
Average accounts payable and accrued liabilities	\$ 182,338	\$ 199,355	\$ (17,017)
DPO ^(a)	83	76	7

(a) DPO is a non-GAAP measure. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures provided by other companies. See *Section 10.0 – Reconciliation of Non GAAP Measures* for further details and a reconciliation of these Non-GAAP measures.

Average accounts payable and accrued liabilities decreased by \$17.0 million, or 8.5%, as at June 30, 2020 compared to December 31, 2019. DPO increased by 7 days from 2019 levels, due to the timing of purchases and payments in the second quarter of 2020 compared with the fourth quarter of 2019.

5.5 Long-term Debt and Credit Facilities

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

(in thousands of Canadian dollars)	June 30, 2020	December 31, 2019
Borrowings on credit facility ^(a)	\$ 438,000	\$ 438,000
Deferred transaction costs	(2,921)	(2,538)
Bank indebtedness- current	\$ 435,079	\$ –
Long-term debt ^(a)	–	435,462
Total bank indebtedness and long-term debt	435,079	435,462
Standard letters of credit for financial guarantees, performance and bid bonds	45,120	36,940
Total utilized credit facilities	\$ 480,199	\$ 472,402
Total available credit facilities ^(b)	776,915	747,976
Unutilized Credit Facilities	\$ 296,716	\$ 275,574

(a) As of July 29, 2020, the Credit Facility would be considered a non-current liability. See Section 5.0 - *Liquidity and Capitalization* for further explanation on the current classification as of June 30, 2020.

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

On March 13, 2019, the Company renewed the 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. 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 not less than 3.00:1.00 and a Net Debt to Adjusted EBITDA covenant (the "Leverage Ratio") of not greater than 3.50:1.00. For calculating the 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").

Amendments to the Credit Facility

On February 27, 2020, the Company entered into an amending agreement with its existing syndicate of lenders under the Credit Facility. The principal amendment to the Credit Facility was an increase in the Company's permitted Leverage Ratio (previously a maximum of 3.50x) to 4.25x for the twelve months trailing ending March 31, 2020 and June 30, 2020, and 4.00x for the twelve months trailing ending September 30, 2020. The Company incurred fees and expenses to implement these amendments of approximately \$1 million in the first quarter of 2020.

Prior to June 30, 2020, the Company had obtained from its banking syndicate a waiver of compliance with the Leverage Ratio and the EBITDA to Interest covenant (the "Interest Coverage Ratio") under the Credit Facility for its second quarter ending June 30, 2020 should the Company be in default thereof. The waiver was conditional on the completion of the renegotiation of the Credit Facility prior to a specific date.

On July 29, 2020, the Company entered into an amending agreement with its existing syndicate of lenders under the Credit Facility. The principal amendments to the Credit Facility are:

- a waiver of the maximum Leverage Ratio for the fiscal quarter ended September 30, 2020 ("Q3 2020") and change in the maximum Leverage Ratio to:
 - 5.75 to 1.00 for the fiscal quarter ended December 31, 2020 ("Q4 2020")
 - 6.50 to 1.00 for the fiscal quarter ended March 31, 2021 ("Q1 2021")
 - 5.75 to 1.00 for the fiscal quarter ended June 30, 2021 ("Q2 2021")
 - 5.50 to 1.00 for the fiscal quarter ended September 30, 2021 ("Q3 2021")

- 5.00 to 1.00 for the fiscal quarter ended December 31, 2021 (“Q4 2021”)
 - 3.50 to 1.00 for all fiscal quarters thereafter;
- a waiver of the minimum Interest Coverage Ratio for Q3 2020 and a change in the minimum Interest Coverage Ratio to:
 - 2.25 to 1.00 for Q4 2020
 - 2.00 to 1.00 for Q1 2021
 - 2.25 to 1.00 for Q2 2021
 - 2.50 to 1.00 for Q3 2021
 - 2.75 to 1.00 for Q4 2021
 - 3.00 to 1.00 for all fiscal quarters thereafter;
- for the purposes of the amended Leverage Ratio and Interest Coverage Ratio, EBITDA shall be calculated as follows:
 - For Q4 2020: (Q4 2020 EBITDA) x 4
 - For Q1 2021: (Q4 2020 EBITDA + Q1 2021 EBITDA) x 2
 - For Q2 2021: (Q4 2020 EBITDA + Q1 2021 EBITDA + Q2 2021 EBITDA) x 4/3
 - Thereafter, on a trailing 12 month basis;
- until receipt by the banking syndicate of reporting for the fiscal year ended December 31, 2020, the addition of a minimum monthly liquidity test, calculated as aggregate unrestricted cash held in lender’s accounts plus undrawn availability under the Credit Facility, of \$290 million;
- a first priority security interest in favour of the banking syndicate is to be provided against the majority of the personal property of the Borrowers and Guarantors under the Credit Facility; and
- increased interest rates and standby and other fees.

The Company will incur fees and expenses of approximately \$1.4 million in the second half of 2020 to implement these amendments.

The Company expects to remain in full compliance with the financial covenants under the Credit Facility despite the ongoing adverse conditions caused by the COVID-19 global pandemic and the volatility in the oil and gas industry.

5.6 Commitments, Leases, Contingencies and Off-Balance Sheet Arrangements

(in thousands of Canadian dollars)	2020	2021	2022	2023	2024	Thereafter	Total
	\$	\$	\$	\$	\$	\$	\$
Purchase commitments	90,590	1,095	–	–	–	–	91,685
Accounts payable	70,821	–	–	–	–	–	70,821
Long-term debt	–	–	–	435,079	–	–	435,079
Obligations under leases	15,621	22,077	17,350	13,246	8,810	18,608	95,712
Common area maintenance obligations under leases	1,163	2,142	1,843	1,365	903	3,617	11,033
Low value/short term leases	1,039	1,269	1,246	1,365	1,365	4,368	10,652
Total contractual obligations	179,234	26,583	20,439	451,055	11,078	26,593	714,982

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 bond as compensation for the Company's failure to perform. The contracts that these performance 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 bonds.

The Company utilizes the Credit Facility to support its bonds. The Company has utilized total credit facilities of \$45.1 million as at June 30, 2020 (December 31, 2019 – \$36.9 million) for support of its bonds. In addition, as at June 30, 2020, the Company had \$86.4 million of outstanding surety bonds through insurance companies (December 31, 2019 – \$50.8 million).

5.7 Financial Instruments and Other Instruments

Fair Value

IFRS 13, *Fair Value – Measurement*, provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs are those that reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions with respect to how market participants would price an asset or liability. These two inputs, 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, 2020:

(in thousands of Canadian dollars)	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	\$ 103,721	\$ 103,721	\$ –	\$ –
Derivative financial instruments	52	–	52	–
Deposit guarantee	254	–	254	–
	\$ 104,027	\$ 103,721	\$ 306	\$ –
Liabilities				
Bank indebtedness	\$ 435,079	\$ –	\$ 435,079	\$ –
Derivative financial instruments	459	–	459	–
	\$ 435,538	\$ –	\$ 435,538	\$ –

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 many 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, 2020, fluctuations of +/- 5% in the Canadian dollar, relative to those foreign currencies, would impact the Company's consolidated revenue, loss from operations, and net loss (attributable to shareholders of the Company) for the six-month period ended June 30, 2020 by approximately \$21.1 million, (\$11.2) million and (\$12.3) 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 \$48.7 million, \$14.5 million and \$34.2 million, respectively, as at June 30, 2020. Please also refer to *Section 12.0 – Financial Reporting in Hyperinflationary Economies*, for the impact of adopting IAS 29 for Argentina.

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, 2020:

(in thousands, except weighted average rate amounts)		
US dollars sold for Euros		
Less than one year		US\$ 19,519
Weighted average rate		0.89
US dollars sold for British pounds		
Less than one year		US\$ 3,068
Weighted average rate		0.81
Euros sold for US dollars		
Less than one year		€ 10,390
Weighted average rate		1.11
Norwegian Kroners sold for US dollars		
Less than one year		NOK 39,643
Weighted average rate		0.10
Canadian Dollars Sold for British Pounds		
Less than one year		CDN\$ 7,649
Weighted average rate		0.59

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

As at June 30, 2020, the Company had notional amounts of \$59.9 million of foreign exchange forward contracts outstanding (December 31, 2019 – \$60.0 million) with the fair value of the Company's net loss from all foreign exchange forward contracts totalling \$0.4 million (December 31, 2019 – \$0.2 million net loss).

Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at June 30, 2020:

(in thousands of Canadian dollars)	Non- interest Bearing		Floating Rate		Fixed Interest Rate		Total
Financial assets							
Cash equivalents	\$	–	\$	–	\$	960	\$ 960
Financial Liabilities							
Standard letters of credit for performance, bid and surety bonds	\$	45,120	\$	–	\$	–	\$ 45,120
Bank indebtedness		–		435,079		–	435,079
	\$	45,120	\$	435,079	\$	–	\$ 480,199

The Company's interest rate risk arises primarily from the floating rate on its Credit Facility and is not currently considered to be material.

Credit Risk

Credit risk arises from cash and cash equivalents held with banks, foreign exchange forward contracts, as well as credit exposure of customers, including outstanding accounts receivable. The maximum credit risk is equal to the carrying value of the financial instruments.

For each of the three and six-month periods ended June 30, 2020 and 2019, there was no customer who generated more than 10% of total consolidated revenue. As at June 30, 2020 and 2019, there was no customer who accounted for more than 10% of the Company's total trade accounts receivable.

Liquidity Risk

As at June 30, 2020, the Company had cash and cash equivalents totalling \$103.7 million (December 31, 2019 – \$98.2 million) and had unutilized lines of credit available to use of \$296.7 million (December 31, 2019 – \$275.6 million).

The Company's objective in managing liquidity risk is to maintain sufficient, readily available cash reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents and through the availability of funding from committed credit facilities. Access to credit facilities is dependent on the Company's compliance with its debt covenants. As outlined in *Section 5.5 – Long-term Debt and Credit Facilities*, Prior to June 30, 2020, the Company had obtained a waiver of compliance from its banking syndicate of the Leverage Ratio and Interest Coverage Ratio under its current Credit Facility for the second quarter ended June 30, 2020. Subsequent to the quarter, the Company has secured and entered into an amending agreement with the syndicate of lenders that will provide covenant relief through December 31, 2021. With this amendment, the Company expects to remain in full compliance with the financial covenants in the Credit Facility despite the ongoing adverse conditions caused by the COVID-19 global pandemic and the volatility in the oil and gas markets.

5.8 Outstanding Share Capital

As at August 4, 2020, the Company had 70,410,185 common shares outstanding and stock options and share units outstanding to purchase up to 2,352,677 common shares.

5.9 Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the three-month period ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

5.10 Transactions with Related Parties

The Company had no material transactions with related parties the first half of 2020. All related party transactions were in the normal course of business.

6.0 Critical Accounting Judgements, Estimates and Accounting Policy Developments

6.1 Critical judgements

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

Materiality

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

Determination of Reportable Operating Segments

Management has exercised judgement in evaluating the defined aspects of its operating segments, aggregation criteria, and quantitative thresholds that form the reportable operating segments of the Company. Management has also exercised professional judgement in determining that the Company's Chief Executive Officer ("CEO") is the Company's Chief Operating Decision Maker ("CODM").

Determination of Cash Generating Unit ("CGU")

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

Business Acquisitions

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

Provisions and Contingent Liabilities

As at June 30, 2020, the Company had \$41.2 million of provisions; of this amount \$20.5 million was included in current liabilities and \$20.7 million was included in non-current liabilities. Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable that there will be a future outflow of economic benefits resulting from past operations or events and the amount of the cash outflow can be reliably measured. The timing of recognition and measurement of the provision requires the application of judgement to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take into account changing facts and circumstances.

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

Decommissioning Liabilities

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

Income Taxes

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

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Management judgement is used to determine the amounts of deferred tax assets and liabilities to be recognized, based upon the likely timing and the level of future taxable profit together with future tax planning strategies. In particular, judgement is required when assessing the timing of the reversal of temporary differences to which future income tax rates are applied.

6.2 Critical Accounting Estimates

The preparation of the interim unaudited consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts of assets, liabilities and contingencies at the date of the financial statements, and the reported amounts of revenue and expenses during the period. These estimates and assumptions are made with management's best judgement given the information available at the time; however, actual results could differ from the estimates.

Critical estimates used in preparing the consolidated financial statements include:

The COVID-19 Pandemic

The global COVID-19 pandemic, along with the volatility in the energy markets, has impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The extent and duration of the impact of COVID-19 and depressed oil prices on the economy remains unclear. In the preparation of the interim consolidated financial statements, the Company has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the reporting periods using the best available information as of June 30, 2020. Actual results could differ materially from those estimates. The estimates and assumptions that the Company considers critical and/or could be impacted by COVID-19 include those underlying the assumptions used in impairment of goodwill and intangibles, the Company's going concern assessment and the estimate of any expected credit losses on amounts receivable and determining the values of financial instruments for disclosure purposes.

Long-lived Assets and Goodwill

As at June 30, 2020, the Company had \$956.4 million of long-lived assets and goodwill. The Company evaluates the carrying values of the CGUs' goodwill on an annual basis on October 31 of each year to determine whether or not impairment of these assets has occurred and whether write downs of the value of these assets are required.

Similarly, the Company evaluates the carrying values of CGUs for long-lived assets whenever circumstances arise that could indicate impairment or reversal of impairment, and at each reporting date. These impairment tests include certain assumptions regarding discount rates and future cash flows generated by these assets in determining the value-in-use and fair value less costs to sell calculations. Actual results could differ from these assumptions and estimates.

In the first quarter of 2020, due to the uncertain business climate brought about by COVID-19 and the volatility in the energy markets, the Company experienced measurement uncertainty and exercised significant judgements and estimates in conducting a review of its impairment testing on property, plant and equipment, intangible assets and goodwill as at March 31, 2020. As a result of this exercise, the Company's estimated future operating cash flows were impacted, and the Company determined certain impairment triggers had occurred. The Company recorded an impairment loss of \$46.0 million on intangible assets for Shawcor Inspection Services, \$3.6 million on assets at two U.S. land pipe coating facilities and \$143.6 million on goodwill for its Pipeline Performance Group CGU, and \$9.8 million on assets associated with a large diameter product line in Composite Production Systems in the first quarter of 2020. The Company concluded no impairment charges were required in the second quarter of 2020.

Employee Future Benefit Obligations

As at June 30, 2020, the Company had \$16.8 million of employee future benefit obligations. The Company provides future benefits to its employees under a number of defined benefit arrangements. The calculation of the defined benefit obligation recognized in the consolidated financial statements includes a number of assumptions regarding discount rates, rates of employee compensation increases, rates of inflation, and life expectancies. The outcome of any of these factors could differ from the estimates used in the calculations and have an impact on operating expenses, non-current assets and non-current liabilities.

Decommissioning Liabilities

As at June 30, 2020, the Company had decommissioning liabilities in the amount of \$22.6 million; of this amount \$6.2 million was included in the current provisions account and \$16.4 million was recorded in the non-current provisions account. Decommissioning liabilities include legal and constructive obligations related to owned and leased facilities. These have been recorded in the consolidated financial statements based on estimated future amounts required to satisfy these obligations. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a current pre-tax risk-free rate.

Financial Instruments

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

Income Taxes

The recording of income tax expense includes certain estimations related to the impact in the current year of future events. Differences between the estimated and actual impact of these events could impact tax expense, current taxes payable or deferred taxes. In particular, income and losses in foreign jurisdictions may be taxed at rates different from those expected in Canada. Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the losses can be utilized.

Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and tax expense already recorded. The Company establishes liabilities, based on reasonable estimates, for possible consequences of audits by the tax

authorities of the respective countries in which it operates. The amount of such liabilities is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the domicile of the respective entities.

6.3 New Accounting Standards Adopted

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 performed an impact assessment on these amendments and determined that there was no material impact of adopting this standard on its consolidated financial statements.

Government Grants and Subsidies

The Company applied IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* in relation to the receipt of the Canada Emergency Wage Subsidy ("CEWS") and other programs as part of the governmental responses to the global COVID-19 health pandemic. Government assistance is recognized only when there is reasonable assurance that (a) the Company will comply with eligibility requirements and (b) the grant will be received. In the second quarter of 2020, the Company recognized and recorded \$7.5 million of subsidies as a reduction in the Selling, General and Administrative expense line item in the Interim Consolidated Statements of (Loss) Income.

7.0 Order Backlog & Outlook

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 as a leading indicator of changes in consolidated revenue. The order backlog of \$553 million as at June 30, 2020, represents a slight decrease over the \$575 million order backlog as March 31, 2020. This decrease reflects revenue generated in the quarter from backlog orders and the impact of a lower Canadian to U.S. dollar exchange rate.

In addition to the backlog, the Company closely monitors its bidding activity and the value of outstanding firm bids, which represents bids provided to customers with firm pricing and conditions against a defined scope, is over \$790 million as of June 30, 2020, down slightly from last quarter largely due to certain offshore and international pipeline project delays. Included in the firm bid, but not in the backlog, are unsanctioned conditional awards between engineering and procurement companies ("EPC's") and Shawcor for a scope of work that is estimated at over \$180 million in revenue beyond the end of the second quarter of 2020. The Company is also working with customers on several other projects and the budgetary estimates at the end of the second quarter remains at almost \$1.4 billion. 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.

Outlook

Shawcor's financial performance is correlated with the level of industry activity and the level of investment in energy and infrastructure for resource development, storage and transportation around the globe and the resultant demand for the Company's products and services.

The near-term outlook and results for the balance of the year remain difficult to forecast as performance will be highly dependent on the nature and duration of the COVID-19 pandemic and its impact on economic output and energy demand. Many exploration and production ("E&P") operators have significantly curtailed production and moved to protection mode, with a stronger capital discipline focus to ensure long term sustainability.

The Company's performance will be determined by the strength of its diverse base business and the stabilization of demand for its products and services, particularly in the U.S., the continued positive demand in its composite tank business, the ability to continue to execute work and projects secured in the backlog and the return of the stable demand profile in automotive and industrial markets which are serviced by the Company. The Company expects results in the second half of the year will benefit from its efforts, to date and planned, to right size the business, improve profitability and meet its stated targets for annualized cost reduction and cash generation. These actions include reducing expenses and spending, aligning the Company's operational footprint, cost structure and human resources with market demand and the controlled closure of several facilities, in addition to the 4 pipe coating locations closed prior to the end of Q2 2020.

The Company's base oil and gas business in North America is heavily tied to the spending programs of E&P operators. In the U.S. land, operators have reduced capital spending budgets to date by up to 50% and completed production shut-ins as a result of the decline in economic activity and oil and gas demand, and regulatory delays in transmission line projects. The Company expects U.S. land demand to stabilize at current levels and gradually improve in the second half of the year assuming that the lifting of COVID-19 restrictions continues and its customers return to a minimum base level of spending. In Western Canada, limited off-take capacity in the region caused by the lack of new pipeline infrastructure has resulted in continued depressed spending. This market is not expected to improve in the medium term until new pipeline off-take capacity is moved on-line, and oil and gas prices strengthen.

Despite the current environment, the Company continues to believe that its current backlog is secure for international and offshore projects and non-oil and gas products such as composite underground storage tanks. It has a diversified customer base in terms of market focus, geographic reach and a combination of late and early cycle businesses. Based on these factors and cost reduction and cash generation activities, the Company continues to expect results to improve in the second half of the year should fundamentals remain at or above second quarter levels.

As the economy and energy demand recover, the Company continues to expect that the global oil & gas capex cycle will resume and that large international and offshore projects will be sanctioned. These investments are required to replace, maintain and rehabilitate infrastructure that is at or beyond its useful design life, replace production due to reservoir depletion, requirements for advanced technologies and non-corrosive materials, or to address geopolitical challenges which are affecting several important producing regions. Additionally, higher investments in gas, specifically LNG and for domestic energy, are being supported by the increased demand for gas and greener alternatives.

Further detail on the outlook for the Pipeline and Pipe Services, Composite Systems and Automotive and Industrial segments are set out below.

Pipeline and Pipe Services Segment

Market demand in the Company's North American Pipeline & Pipe services segment businesses is closely tied to drilling and completion activity, the development of new and the repair/replacement of transmission pipelines and requirements for pipeline integrity and regulatory compliance. These activities drive the demand for small and

large diameter pipe coatings and joint protection, girth weld inspection services on existing pipelines and new projects and engineering design and consulting services.

Although activity in U.S. land has decreased significantly in the current quarter as operators have moved to aggressively cut costs and reduce capital spending budgets by up to 50%, the Company expects demand to stabilize at these lower levels and gradually improve in the second half of the year assuming that COVID-19 restrictions continue to ease and operators return to a minimum base level of investment to maintain current levels of production.

The Company expects to continue to execute work secured in its backlog, including new international and offshore projects awarded in the first quarter, and continues to ramp-up pipe coating facilities in Channelview (Texas), Scotland, Norway, Indonesia and UAE.

The Company is engaged with major EPC's and international and national oil and gas customers as they review project portfolios and does expect certain projects which are yet to be sanctioned to be delayed as a result of cost controls and reduced capital spending. The Company expects that the projects with the greatest likelihood of moving ahead will be those tied to securing long-term domestic energy supply, projects undertaken as a result of national economic development and those that risk the loss of drilling-rights due to non-development timelines. The Company continues to monitor international developments including Norway's consideration of time-limited tax relief measures for oil and gas development, momentum in Brazil's pre-salt offshore oil and gas projects and Middle Eastern offshore sour gas projects designed to meet domestic energy requirements. In addition, the Company is monitoring progress on a previously deferred major East African crude oil project which has re-bid potential as a result of recent changes in the development landscape.

As a result of the decreased demand and market dynamics, the Company will continue its efforts to adjust its pipe coating footprint to match market activity levels and exit certain North American and international locations and/or product lines which are not strategic over the longer term. The continued depression experienced in Western Canada in the first and second quarter is expected to continue as off-take capacity remains limited, there is no certainty of new pipeline infrastructure being built and lower commodity prices continue.

Composite Systems Segment

Market demand for the Company's Composite Systems segment businesses are driven by North American drilling and completion activity, demand for international oil and gas gathering line applications, advanced materials in OCTG and underground storage and treatment tanks in fuel, water and wastewater and oil and gas. The segment benefits from a lower cost of ownership of composite systems versus steel and other materials, the development of larger diameter pipe applications and its international market qualifications.

The composite pipe business was significantly impacted in the second quarter by the decline in drilling and completion activity across the customer base as operators reduced drill rigs and activity levels. Although the demand for the businesses core products is expected to remain low compared to historical levels, there is some recent positive momentum in order in-take that could signal the need to restart production in the near future which would lead to improved results for the segment. The Company also believes that the lower demand can be partially offset by the continued commercialization of larger diameter solutions, market share gains and development work on international projects.

Demand for composite storage tanks is delinked from the dynamics of oil and gas markets and is expected to remain strong throughout the balance of 2020 and as the Company executes on a historically high backlog and benefits from North American infrastructure spending. Fuel market demand is expected to remain strong as commercial and convenience store retailers realize the benefits of higher fuel margins. The demand for water storage and treatment tanks is expected to be supported by expected higher infrastructure spending and through its partnership with third-party parties to jointly develop complete product solutions for commercial and municipal water projects. The Company expects to deliver on its composite tank order backlog over the balance of the year with a focus on safe operations, productivity improvements and supply chain management.

Automotive and Industrial Segment

Demand for the Company's Automotive and Industrial segment businesses generally follows 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 and the expected increased spending on nuclear facility refurbishment.

Automotive demand is expected to be slow to return in North America and Europe and the recovery is expected to extend to later in the year as OEM assembly plants restart and operate at reduced capacity levels in the near term. The Company's operations in China are expected to ramp-up as OEMs in the region return to full production, however volumes are expected to remain at pre-COVID-19 levels. The impact of extended automotive shutdowns depends on the geographic extent of those OEM's affected and their capacity ramp-up throughout the course of the year.

Industrial market demand for heat-shrink products is expected to have moderate recovery beginning later in the year, while demand for specialty wire and cable products is expected to remain steady with solid demand from electrical utilities and communications providers in eastern North America.

8.0 Risks and Uncertainties

Operating in an international environment, servicing predominantly the oil and gas industry, Shawcor faces a number of business risks and uncertainties that could materially and adversely affect the Company's projections, business, results of operations and financial condition. The information presented in the section "Risks and Uncertainties" in the Company's Annual MD&A contained in its 2019 Annual Report, and in its 2019 Annual Information Form ("AIF") has not materially changed since their date of publication, except for the following:

Effect of Global COVID-19 Pandemic

The Company's operations and financial results have been adversely impacted by the global COVID-19 pandemic and it may be exposed to additional liabilities and risks created by this unprecedented crisis. The COVID-19 pandemic has resulted in unprecedented governmental actions, including mobility restrictions, border closures, shutdown of non-essential business and new health and monitoring guidelines. Oil demand has significantly declined as a result of the COVID-19 pandemic and corresponding preventative measures taken around the world to mitigate the spread of the virus. At the same time, oil prices were adversely impacted from the actions taken by Saudi Arabia and Russia to increase production of oil which created a significant supply surplus. In response to the rapid decline in oil prices, the Company's customers have taken unprecedented steps to reduce their capital programs and scale down their operations.

The global COVID-19 pandemic, and the resulting reduction in oil prices and in customers' capital spending, has directly negatively impacted the Company's business and may have increased the potential negative impact from the risks described in the Company's MD&A and AIF for the year ended December 31, 2019. The duration and impact of the COVID-19 pandemic on the Company is difficult to determine at this time. As such, it is not possible to reliably estimate the COVID-19-related impacts on the financial results and operations of the Company.

The COVID-19 pandemic could materially impact the financial results of the Company and may include, but are not limited to, the following risks:

- Customers may attempt to cancel or delay projects or may attempt to invoke force majeure clauses in certain contracts.
- Customers may seek to delay payments, may default on payment obligations and/or seek bankruptcy protection that could delay or prevent collections of certain accounts receivable.
- Disruption to the Company's domestic and global supply chains, including restrictions on importing and exporting products.

- Temporary or long-term operational disruptions and labour shortages due to decreased productivity resulting from government mandated stay-at-home orders or facility closures.
- Higher costs associated with the rationalization of facilities and workforce.
- The Company's inability to access capital or liquidity at acceptable terms.
- Additional asset impairments as demand for our services and products decreases.

The Company has taken actions to mitigate the effects of COVID-19 on its business operations and continues to focus on the safety and health of its employees, customers and other stakeholders. While the full impact of the COVID-19 pandemic cannot be predicted, the Company expects that its business model and disciplined approach to financial management will allow it to endure through these uncertain times.

9.0 Environmental Matters

As at June 30, 2020, the provisions on the consolidated balance sheet related to environmental matters and included as decommissioning liability obligations were \$22.6 million. The Company believes these provisions to be sufficient to fully satisfy all liabilities related to known environmental matters.

The total undiscounted cash flows estimated to settle all decommissioning liabilities were \$27.2 million as June 30, 2020. The current pre-tax risk-free rates at which the estimated cash flows have been discounted range between 0% and 13%. Settlement for all decommissioning liabilities is expected to be funded by future cash flows from the Company's operations.

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

(in thousands of Canadian dollars)		June 30, 2020
2020	\$	5,473
2021		5,096
2022		134
2023		707
2024		1,773
More than five years		14,014
		\$ 27,197

10.0 Reconciliation of Non-GAAP Measures

The Company reports on certain non-GAAP measures that are used to evaluate its performance and segments, as well as to determine compliance with debt covenants and to manage 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. Adjusted EBITDA is calculated by adding back to EBITDA the sum of impairments, costs associated with repayment of long-term debt and credit facilities, gain on sale of land, gain on sale of investment in associates, acquisition costs, restructuring costs and hyperinflationary adjustments. 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 Credit Facility.

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
(in thousands of Canadian dollars)				
Net (Loss) Income	\$ (36,889)	\$ 50,892	\$ (271,968)	\$ 41,971
Add:				
Income tax (recovery) expense	(4,904)	(18,750)	1,827	(19,354)
Finance costs, net	5,186	5,483	11,395	8,940
Amortization of property, plant, equipment, intangible and ROU assets	23,356	28,003	47,932	48,611
Cost associated with repayment of long-term debt and credit facilities	—	—	—	12,308
EBITDA	\$ (13,251)	\$ 65,628	\$ (210,814)	\$ 92,476
ZCL acquisition costs and other related items	—	12,132	—	12,683
Hyperinflation adjustment for Argentina	413	749	890	1,594
Gain on sale of land	—	(32,608)	—	(32,608)
Gain on redemption of investment in associate	—	(9,687)	—	(9,687)
Impairment	—	—	203,084	—
Restructuring costs	17,094	—	17,300	—
Adjusted EBITDA	\$ 4,256	\$ 36,214	\$ 10,460	\$ 64,458

Pipeline and Pipe Services Segment

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
(in thousands of Canadian dollars)				
Operating (Loss) Income	\$ (23,977)	\$ 31,496	\$ (239,650)	\$ 18,829
Add:				
Amortization of property, plant, equipment, intangible and ROU assets	13,141	16,443	27,388	31,527
EBITDA	\$ (10,836)	\$ 47,939	\$ (212,262)	\$ 50,356
Hyperinflation adjustment for Argentina	(117)	(219)	(80)	(114)
Gain on sale of land	—	(32,552)	—	(32,552)
Impairment	—	—	193,256	—
Restructuring costs	7,825	—	8,013	—
Adjusted EBITDA	\$ (3,128)	\$ 15,168	\$ (11,073)	\$ 17,690

Composite Systems Segment

(in thousands of Canadian dollars)	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Operating (Loss) Income	\$ (4,356)	\$ 2,072	\$ (12,325)	\$ 19,292
Add:				
Amortization of property, plant, equipment, intangible and ROU assets	8,246	9,905	16,783	13,896
EBITDA	\$ 3,890	\$ 11,977	\$ 4,458	\$ 33,188
ZCL acquisition costs and other related items	—	7,172	—	7,172
Gain on sale of land	—	(56)	—	(56)
Impairment	—	—	9,828	—
Restructuring costs	3,820	—	3,836	—
Adjusted EBITDA	\$ 7,710	\$ 19,093	\$ 18,122	\$ 40,304

Automotive and Industrial Segment

(in thousands of Canadian dollars)	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Operating Income	\$ (124)	\$ 8,472	\$ 7,473	\$ 17,821
Add:				
Amortization of property, plant, equipment, intangible and ROU assets	1,188	1,149	2,308	2,225
EBITDA	\$ 1,064	\$ 9,621	\$ 9,781	\$ 20,046
Restructuring costs	4,226	—	4,228	—
Adjusted EBITDA	\$ 5,290	\$ 9,621	\$ 14,009	\$ 20,046

Adjusted Net (Loss) Income and Adjusted EPS

Adjusted net (loss) income is a non-GAAP measure defined as net (loss) 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; restructuring cost; 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 (loss) 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)	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Net (Loss) Income	\$ (36,889)	\$ 50,892	\$ (271,968)	\$ 41,971
Add:				
ZCL acquisition costs and other related items	—	12,132	—	12,683
Hyperinflation adjustment for Argentina	915	1,597	2,073	3,196
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)
Restructuring costs	17,094	—	17,300	—
Impairment	—	—	203,084	—
Tax effect of the above adjustments	(3,179)	(3,541)	(5,580)	(5,652)
Adjusted Net (Loss) Income	\$ (22,059)	\$ 18,785	\$ (55,091)	\$ 22,211
Adjusted Net (Loss) Income Attributable to Shareholders	\$ (21,945)	\$ 18,937	\$ (54,801)	\$ 22,210
Adjusted EPS				
Basic	\$ (0.31)	\$ 0.27	\$ (0.78)	\$ 0.32
Diluted	\$ (0.31)	\$ 0.27	\$ (0.78)	\$ 0.32

Operating Margin/Adjusted Operating Margin

Operating margin/adjusted operating margin are defined as operating (loss) income divided by revenue and are non-GAAP measures. The Company believes that operating margin and adjusted operating margin are useful supplemental measures that provide meaningful assessment of the business performance of the Company and its Operating Segments. The Company uses these measures as key indicators of financial performance, operating efficiency and cost control based on volume of business generated.

Adjusted Operating (Loss) Income

Adjusted Operating (Loss) Income is a non-GAAP measure calculated by adding back to Operating (loss) income the sum of gain from sale of land, ZCL acquisition costs and other related items, restructuring cost, impairment and hyperinflationary adjustments. Adjusted Operating (Loss) Income does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures provided by other companies.

The following table sets forth the Company's Adjusted Operating (Loss) Income:

(in thousands of Canadian dollars)	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
(Loss) Income from operation	\$ (36,165)	\$ 29,376	\$ (257,983)	\$ 37,010
Add:				
ZCL acquisition costs and other related items	—	12,132	—	12,683
Hyperinflation adjustment for Argentina	535	402	1,211	1,329
Gain on sale of land	—	(32,608)	—	(32,608)
Restructuring costs	17,094	—	17,300	—
Impairment	—	—	203,084	—
Adjusted Operating (Loss) Income	\$ (18,536)	\$ 9,302	\$ (36,388)	\$ 18,414

Days Sales Outstanding ("DSO")

DSO is defined as the number of days trade accounts receivable are outstanding based on a 90-day cycle and is calculated by dividing the average trade accounts receivable balance for the quarter by the revenue for that same quarter and multiplying by 90 days. DSO approximates the measure of the average number of days from when the Company recognizes revenue until the cash is collected from the customer. This measure is important in assessing the Company's ability to generate cash from its outstanding trade accounts receivable. The Company monitors this measure to manage cash flow from its operations. The following table sets forth the calculation for the Company's DSO as at:

(in thousands of Canadian dollars, except DSO)	June 30, 2020	December 31, 2019
Revenue for the quarter	\$ 266,118	\$ 334,107
Average trade accounts receivable	\$ 207,050	\$ 228,461
DSO	70	62

Days Payables Outstanding ("DPO")

DPO is defined as the average number of days from when purchased goods and services are received until payment is made to the suppliers based on a 90-day cycle and is calculated by dividing the average accounts payable and accrued liabilities for the quarter by the cost of goods sold for that same quarter and multiplying by 90 days. DPO approximates average payment terms granted by the Company's suppliers, and an increase in DPO is generally considered an improvement in the management of accounts payable and accrued liabilities. This measure is important in assessing the Company's ability to ensure optimal cash flow management while meeting its financial obligations in a timely manner. The Company monitors this measure to manage cash flows from its operations. The following table sets forth the calculation for the Company's DPO as at:

(in thousands of Canadian dollars, except DPO)	June 30, 2020	December 31, 2019
Cost of goods sold and services rendered for the quarter	\$ 198,342	\$ 237,310
Average accounts payable and accrued liabilities	\$ 182,338	\$ 199,355
DPO	83	76

11.0 Summary of Quarterly Results

The following is a summary of selected financial information for the ten most recently completed quarters:

(in thousands of Canadian dollars, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenue					
2020	319,027	266,118	—	—	—
2019	349,578	411,789	394,015	334,107	1,489,489
2018 ^(b)	350,767	353,368	350,589	354,148	1,408,872
(Loss) Income from operations					
2020	(221,818)	(36,165)	—	—	—
2019	7,634	29,376	17,117	(100,538)	(46,411)
2018 ^(b)	10,765	13,465	17,057	9,326	50,613
Net (loss) income^(a)					
2020	(234,903)	(36,775)	—	—	—
2019	(9,074)	51,044	6,520	(81,783)	(33,293)
2018 ^(b)	3,829	7,308	10,373	4,366	25,876
(Loss) Income from operations per share					
Basic					
2020	(3.16)	(0.51)	—	—	—
2019	0.11	0.42	0.24	(1.43)	(0.66)
2018 ^(b)	0.15	0.19	0.24	0.13	0.72
Diluted					
2020	(3.16)	(0.51)	—	—	—
2019	0.11	0.42	0.24	(1.43)	(0.66)
2018 ^(b)	0.15	0.19	0.24	0.13	0.72
Net (loss) income per share					
Basic					
2020	(3.35)	(0.52)	—	—	—
2019	(0.13)	0.73	0.09	(1.17)	(0.47)
2018 ^(b)	0.05	0.10	0.15	0.06	0.37
Diluted					
2020	(3.35)	(0.52)	—	—	—
2019	(0.13)	0.73	0.09	(1.17)	(0.47)
2018 ^(b)	0.05	0.10	0.15	0.06	0.37

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

(b) Prior year quarterly financial information is not restated for IFRS 16.

The following are key factors affecting the comparability of quarterly financial results.

The Company's operations in the Pipeline and Pipe Services segment, representing approximately 59% of the Company's consolidated revenue in the three-month period ended June 30, 2020 are largely project-based. The nature and timing of projects can result in variability in the Company's quarterly revenue and profitability. In addition, certain of the Company's operations are subject to a degree of seasonality, particularly in the Pipeline and Pipe Services market segment. The acquisition of ZCL at the beginning of the second quarter of 2019 increased revenues starting in the second quarter of 2019 in the Composite Systems segment. The ZCL acquisition negatively impacted operating income in the second quarter of 2019, but positively impacted operating income in the quarters after that. The second and third quarters of 2019 benefitted significantly from a \$32.6 million gain and the \$5.4

million gain, respectively, on the sale of land. The fourth quarter 2019 and first quarter 2020 were adversely impacted by impairment charges of \$104.1 million and \$203.1 million, respectively. The second quarter of 2020 was adversely impacted by restructuring costs of \$17.1 million. The comparability of the quarterly information disclosed above is also impacted by movements in exchange rates as the majority of the Company's revenue is transacted in currencies other than Canadian dollars, primarily U.S. dollars. Changes in the rates of exchange between the Canadian dollar and other currencies could have a significant effect on the amount of this revenue when it is translated into Canadian dollars. Please refer to *Section 2.2* for a further explanation of the impact of foreign exchange fluctuations on the Company for the second quarter of 2020 and 2019.

12.0 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* ("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 ("ARS").

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
2019 – June	864.23	1.3921	0.030809
2019 – September	938.54	1.2819	0.022995
2019 – December	1053.54	1.1420	0.021690
2019 – March	1137.44	1.0577	0.022055
2020 – June	1203.10	1.0000	0.019344

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current as at June 30, 2020. Non-monetary assets, liabilities, equity, revenue and expenses (items that are not already expressed in terms of the monetary unit as at June 30, 2020) 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 interim consolidated statements of (loss) 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 interim 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 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,	
(in thousands of Canadian dollars, except per share amounts)	2020	2019	2020	2019
Revenue	\$ (182)	\$ 1,501	\$ (103)	\$ 792
Gross profit	26	441	24	249
Foreign exchange loss (gain)	161	(268)	116	(179)
Loss from operations	(536)	(402)	(1,212)	(1,329)
Net monetary loss	(370)	(1,236)	(855)	(1,887)
Loss before income taxes	(915)	(1,597)	(2,073)	(3,196)
Income tax expense	12	302	172	493
Net Loss	\$ (927)	\$ (1,899)	\$ (2,245)	\$ (3,689)
Loss per Share				
Basic	\$ (0.01)	\$ (0.03)	\$ (0.03)	\$ (0.05)
Diluted	\$ (0.01)	\$ (0.03)	\$ (0.03)	\$ (0.05)

13.0 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 impact and duration of the global COVID-19 pandemic and the related impacts on the Company's operations and the global supply and demand of oil and gas, the completion of restructuring initiatives and cost controls and the levels of cost savings and cash generation to be achieved thereby, the achievement of its anticipated quarterly normalized SG&A, the future outlook for capital expenditures in the offshore oil and gas sector and US land drilling and completion activity, the demand for its products in retail fuel, automotive and industrial markets, the level of financial performance for the balance of 2020, 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, Composite Systems and the Automotive and Industrial segments of the Company's business, the expected development and successful execution 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, the impact of global oil and gas commodity prices, the impact of changing energy demand, supply and prices and the impact and likelihood of changes in competitive conditions in the markets in which the Company participates, the execution of definitive contracts for and the timing to complete certain pipe coating projects, the likelihood that projects will be sanctioned in the future, and the impact thereof on the Company's business, the ability of the Company to fund its operating and capital requirements, the ability of the Company to comply with its debt covenants, the adequacy of the Company's existing accruals in respect of environmental compliance, litigation, tax and other claims and the level of payments generally under the Company's performance, bid and surety 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 duration and impact of the COVID-19 pandemic on the Company, its employees, customers, suppliers, energy and commodity markets and on the global economy, 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 delay, suspension or cancellation of existing or anticipated contracts, as a result of lower investment in global oil and gas extraction, infrastructure 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; the impact of climate change on the demand for the Company's products and fluctuations in foreign exchange rates, as well as other risks and uncertainties described herein under "Risks and Uncertainties" and 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 the continuation of the lifting of COVID 19 restrictions and the impact thereof on global economic activity, global oil and gas prices, the delay in the near term of certain projects and the likelihood of projects tied to securing long-term domestic energy supply or drilling rights being sanctioned, the recommencement of increased capital expenditures in the global offshore oil and gas segment, the commencement of recovery of the global economy, no growth in Western Canada and gradual improvement over the balance of the year in U.S. land markets, softening demand in the automotive market, particularly in North America and Europe, solid demand in the retail fuel market and stable demand in the industrial markets, the Company's ability to execute projects under contract, the continued supply of and stable pricing for commodities used by the Company, the availability of personnel resources sufficient for the Company to operate its businesses, the maintenance of operations in major oil and gas producing regions, the 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, bid and surety bonds and the ability of the Company to satisfy all covenants under the Credit Facility and having sufficient liquidity to fund its obligations and planned initiatives. 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.

14.0 Additional Information

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

August 6th, 2020