



# 2018 SECOND QUARTERLY REPORT



**Intertape Polymer Group Inc.**  
**Management's Discussion and Analysis**

**Consolidated Quarterly Statements of Earnings**

Three month periods ended

(In thousands of US dollars, except per share amounts)

(Unaudited)

	<b>June 30, 2018</b>	March 31, 2018	December 31, 2017	September 30, 2017
	\$	\$	\$	\$
Revenue	<b>249,072</b>	237,229	237,404	243,444
Cost of sales	<b>194,605</b>	186,777	183,381	192,575
Gross profit	<b>54,467</b>	50,452	54,023	50,869
Gross margin	<b>21.9%</b>	21.3%	22.8%	20.9%
Selling, general and administrative expenses	<b>27,626</b>	29,123	34,125	18,776
Research expenses	<b>3,233</b>	3,221	2,889	3,091
	<b>30,859</b>	32,344	37,014	21,867
Operating profit before manufacturing facility closures, restructuring and other related (recoveries) charges	<b>23,608</b>	18,108	17,009	29,002
Manufacturing facility closures, restructuring and other related (recoveries) charges	<b>(407)</b>	107	466	216
Operating profit	<b>24,015</b>	18,001	16,543	28,786
Finance costs (income)				
Interest	<b>3,945</b>	2,462	2,525	2,290
Other expense (income), net	<b>1,328</b>	1,125	(4,693)	593
	<b>5,273</b>	3,587	(2,168)	2,883
Earnings before income tax expense (benefit)	<b>18,742</b>	14,414	18,711	25,903
Income tax expense (benefit)				
Current	<b>765</b>	988	(1,064)	2,253
Deferred	<b>2,901</b>	2,132	(1,405)	4,378
	<b>3,666</b>	3,120	(2,469)	6,631
Net earnings	<b>15,076</b>	11,294	21,180	19,272
Net earnings (loss) attributable to:				
Company shareholders ("IPG Net Earnings")	<b>15,144</b>	11,359	21,319	19,244
Non-controlling interests	<b>(68)</b>	(65)	(139)	28
	<b>15,076</b>	11,294	21,180	19,272
IPG Net Earnings per share				
Basic	<b>0.26</b>	0.19	0.36	0.33
Diluted	<b>0.26</b>	0.19	0.36	0.32
Weighted average number of common shares outstanding				
Basic	<b>58,811,586</b>	58,801,327	58,831,518	59,171,255
Diluted	<b>59,103,899</b>	59,146,693	59,154,509	59,527,823

**Consolidated Quarterly Statements of Earnings**  
Three month periods ended  
(In thousands of US dollars, except per share amounts)  
(Unaudited)

	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
	\$	\$	\$	\$
Revenue	210,158	207,120	209,909	206,559
Cost of sales	162,783	157,980	156,174	161,705
Gross profit	47,375	49,140	53,735	44,854
Gross margin	22.5%	23.7%	25.6%	21.7%
Selling, general and administrative expenses	28,717	25,974	25,576	27,338
Research expenses	2,643	2,978	3,227	2,287
	31,360	28,952	28,803	29,625
Operating profit before manufacturing facility closures, restructuring and other related charges (recoveries)	16,015	20,188	24,932	15,229
Manufacturing facility closures, restructuring and other related charges (recoveries)	410	267	(7,744)	6,329
Operating profit	15,605	19,921	32,676	8,900
Finance costs				
Interest	1,283	1,148	1,236	1,158
Other expense, net	274	428	15	270
	1,557	1,576	1,251	1,428
Earnings before income tax expense	14,048	18,345	31,425	7,472
Income tax expense				
Current	2,753	2,693	3,454	30
Deferred	1,222	2,219	6,272	1,192
	3,975	4,912	9,726	1,222
Net earnings	10,073	13,433	21,699	6,250
IPG Net Earnings	10,199	13,462	21,682	6,250
Non-controlling interests	(126)	(29)	17	—
	10,073	13,433	21,699	6,250
IPG Net Earnings per share				
Basic	0.17	0.23	0.37	0.11
Diluted	0.17	0.22	0.36	0.10
Weighted average number of common shares outstanding				
Basic	59,153,920	59,134,017	58,899,366	58,696,647
Diluted	59,557,443	60,202,147	60,746,886	60,870,914

This Management's Discussion and Analysis ("MD&A") is intended to provide the reader with a better understanding of the business, strategy and performance of Intertape Polymer Group Inc. (the "Company"), as well as how it manages certain risks and capital resources. This MD&A, which has been prepared as of August 10, 2018, should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and notes thereto as of and for the three and six months ended June 30, 2018 and 2017 ("Financial Statements"). It should also be read together with the text below on forward-looking statements in the section entitled "Forward-Looking Statements".

For the purposes of preparing this MD&A, the Company considers the materiality of information. Information is considered material if the Company believes at the time of preparing this MD&A that: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the common shares of the Company; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; and/or (iii) it would significantly alter the total mix of information available to investors. The Company evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Except where otherwise indicated, all financial information presented in this MD&A, including tabular amounts, is prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS" or "GAAP") and is expressed in US dollars. Variance, ratio and percentage changes in this MD&A are based on unrounded numbers and therefore can give rise to rounding differences.

## Overview

The Company reported an 18.5% increase in revenue for the second quarter of 2018 compared to the second quarter of 2017 and a 16.5% increase in revenue for the first six months of 2018 compared to the same period in 2017. The increase in revenue for both periods was primarily due to an increase in average selling price, including the impact of product mix, and additional revenue from the Cantech Acquisition<sup>(1)</sup> and the Airtrax Acquisition<sup>(2)</sup> (together the "Acquisitions").

Gross margin decreased to 21.9% in the second quarter of 2018 compared to 22.5% in the second quarter of 2017 primarily due to the Acquisitions, partially offset by an increase in spread between selling prices and combined raw material and freight costs. Gross margin decreased to 21.6% in the first six months of 2018 compared to 23.1% in the first six months of 2017 primarily due to the impact of the Acquisitions and the non-recurrence of insurance proceeds related to the South Carolina Flood ("Insurance Proceeds")<sup>(3)</sup> of \$2.1 million.

Net earnings attributable to the Company's shareholders ("IPG Net Earnings") for the second quarter of 2018 increased to \$15.1 million (\$0.26 basic and diluted earnings per share) from \$10.2 million for the second quarter of 2017 (\$0.17 basic and diluted earnings per share). The increase was primarily due to an increase in gross profit and a decrease in selling, general and administrative expenses ("SG&A"), partially offset by an increase in finance costs. The decrease in SG&A is mainly due to a decrease in share-based compensation and a decrease in M&A Costs<sup>(4)</sup>, partially offset by an increase in variable compensation, additional SG&A from the Cantech Acquisition, and an increase in employee related costs to support growth initiatives. The increase in finance costs is mainly due to interest expense resulting from both higher average debt outstanding and higher average cost of debt as well as debt issue costs written off as a result of the refinancing and replacement of the 2014 Revolving Credit Facility (defined later in this document).

IPG Net Earnings for the first six months of 2018 increased to \$26.5 million (\$0.45 basic and diluted earnings per share) from \$23.7 million for the same period in 2017 (\$0.40 basic and diluted earnings per share). The increase was primarily due to an increase in gross profit and a decrease in income tax expense, partially offset by an increase in finance costs and SG&A.

Adjusted EBITDA<sup>(5)</sup> for the second quarter of 2018 increased to \$34.6 million from \$31.1 million for the second quarter of 2017. The increase in adjusted EBITDA was primarily due to an increase in gross profit and adjusted EBITDA contributed by Cantech, partially offset by an increase in SG&A.

Adjusted EBITDA for the first six months of 2018 increased to \$64.8 million from \$61.5 million for the same period in 2017. The increase in adjusted EBITDA was primarily due to an increase in gross profit and adjusted EBITDA contributed by Cantech, partially offset by an increase in SG&A and the non-recurrence of Insurance Proceeds of \$2.1 million realized in the first quarter of 2017.

- (1) "Cantech Acquisition" or "Cantech" refers to the acquisition by the Company of substantially all of the assets of Canadian Technical Tape Ltd. (doing business as "Cantech"), which includes the shares of Cantech Industries Inc., Cantech's US subsidiary, on July 1, 2017.
- (2) "Airtrax Acquisition" or "Airtrax" refers to the acquisition by the Company of substantially all of the assets and assumption of certain liabilities of Airtrax Polymers Private Limited (doing business as "Airtrax") on May 11, 2018. Refer to the section below entitled *Capstone Partnership* for more information regarding this transaction.
- (3) "South Carolina Flood" refers to significant rainfall and subsequent severe flooding on October 4, 2015 that resulted in considerable damage to and the permanent closure of the Columbia, South Carolina manufacturing facility eight to nine months in advance of the planned shut down. "Insurance Proceeds" refers to insurance claim settlement proceeds totalling \$29.5 million, net of a \$0.5 million deductible, covering most of the claimed losses associated with the South Carolina Flood. The Company recorded proceeds as a benefit in manufacturing facility closures, restructuring and other related charges totalling \$5.0 million, \$0.5 million and \$9.3 million in the fourth quarter of 2015, second and fourth quarters of 2016, respectively, and as a benefit in cost of sales totalling \$4.5 million, \$8.1 million, and \$2.1 million in the second and fourth quarters of 2016 and the first quarter of 2017, respectively.
- (4) "M&A Costs" refers to advisory fees and other costs associated with mergers and acquisitions activity, including due diligence, integration and certain non-cash purchase price accounting adjustments.
- (5) Non-GAAP financial measure. For definitions and reconciliations of non-GAAP financial measures to their most directly comparable GAAP financial measures, see "Non-GAAP Financial Measures" below.

## **Other Highlights:**

### *New Credit Facility*

On June 14, 2018, the Company entered into a new five-year \$600.0 million credit facility ("2018 Credit Facility") pursuant to a credit agreement with a syndicated lending group, refinancing and replacing the Company's previous \$450.0 million credit facility that was due to mature in November 2019 ("2014 Revolving Credit Facility"). The 2018 Credit Facility consists of a \$200.0 million term loan ("2018 Term Loan") and a \$400.0 million revolving credit facility ("2018 Revolving Credit Facility") with the 2018 Term Loan amortizing 35% over five years. The 2018 Credit Facility also includes an incremental accordion feature of \$200.0 million, which enables the Company to increase the limit of this facility (subject to the credit agreement's terms and lender approval) to \$800.0 million if needed. The 2018 Credit Facility matures on June 14, 2023 and bears an interest rate based, at the Company's option, on the London Inter-bank Offered Rate, the Federal Funds Rate, or Bank of America's prime rate, plus a spread varying between 25 and 250 basis points depending on the debt instrument's benchmark interest rate and the consolidated secured net leverage ratio (weighted average of 200 basis points as of June 30, 2018). The 2018 Credit Facility provides a more favourable covenant structure and increased flexibility to the Company as compared to the previous credit facility. The 2018 Credit Facility refinanced a majority portion of the Company's existing debt and is expected to finance capital expenditures, business acquisitions, dividends, working capital, share repurchases and other general corporate activities.

### *Capstone Partnership*

On May 11, 2018, the Company acquired substantially all of the assets and assumed certain liabilities of Airtrax as part of a larger transaction involving Capstone Polyweave Private Limited (doing business as "Capstone") and its minority shareholders. Management is in the process of allocating the fair value of the opening balance sheet purchase price allocation and post-closing equity transactions which was not yet completed as of the end of the second quarter of 2018.

Airtrax manufactures and sells woven products used in various applications, including in the building and construction industry. Under the new arrangement, the Company now controls a fully-operative woven manufacturing facility in Chopanki, India and is continuing to partner with the minority shareholders of Capstone in serving the transferred Airtrax customers while realizing savings from a low-cost manufacturing facility that is expected to support future revenue growth in woven products.

As part of the agreement, the minority shareholders of Capstone have contributed in kind certain assets and liabilities valued at approximately \$13 million and formerly attributed to Airtrax's woven product manufacturing operations in exchange for newly-issued shares of Capstone. On August 10, 2018, the Company acquired additional shares of Capstone in exchange for approximately \$3.6 million in cash as part of the same overall transaction. As a result of this purchase, the Company now has a controlling 55% ownership stake in Capstone with the minority shareholders of Capstone owning 45%.

Alongside the acquired operations of Airtrax, the new greenfield manufacturing facility in Karoli, India ("Capstone Greenfield Project") is expected to bring even further capacity to Capstone in its ability to produce woven products primarily for the Company's global distribution. The Capstone Greenfield Project is progressing on time and on budget, with commercial operations still

expected to commence in the first half of 2019. The Company continues to expect an after-tax internal rate of return of at least an after-tax hurdle rate of 15% on this project.

### *Polyair*

On August 3, 2018, pursuant to a purchase agreement dated July 17, 2018, the Company acquired 100% of the outstanding equity value in Polyair Inter Pack Inc. ("Polyair") for a total cash consideration of approximately \$146 million, subject to certain purchase price adjustments. The Company funded the acquisition with funds available under the Company's 2018 Credit Facility.

Polyair, a private company, is a significant industry player in the protective packaging business with seven manufacturing facilities and a distribution center in North America. Polyair's primary products consist of bubble cushioning, foam, mailers and air pillow systems, which are complementary to the Company's existing product offering. The acquisition will further strengthen the Company's product bundle and bring immediate and additional scale in protective packaging solutions. With the diverse set of customers between the Company and Polyair, this enhanced product bundle should facilitate significant cross-selling opportunities as both companies currently sell products through similar distribution and end user customer channels. Specifically, both companies have been focused on the e-commerce segment as a growth engine, which is expected to be leveraged even further with this combination. In addition to these revenue synergies, the Company expects to benefit from certain operational cost synergies at Polyair and upon closing, expects to have a comprehensive offering of packaging and protective solutions.

The Company estimates Polyair will generate approximately \$133 million of revenue, approximately \$14 million in adjusted EBITDA in the twelve months ending December 31, 2018 and will be accretive to the Company earnings in 2019, excluding M&A Costs. Deal and integration costs are expected to be approximately \$2 million and \$3 to \$4 million, respectively, with the majority of integration costs expected to be recognized during 2019 and 2020. The Company estimates Polyair will generate approximately \$20 to \$22 million in adjusted EBITDA by 2021, which includes synergies and organic growth driven primarily by the e-commerce business channel. Based on the acquisition price and the expected synergies, the post-transaction valuation multiple is expected to be approximately seven times adjusted EBITDA.

### *Cantech Acquisition Synergies*

In order to further expand on operational synergies gained from the Cantech Acquisition which was completed in July 2017, the Company has set out a plan to close its Johnson City, Tennessee manufacturing facility and transfer production to other existing manufacturing facilities. The Johnson City manufacturing facility, which primarily produces carton sealing tape, is expected to transfer substantially all current production by the end of 2018. The Company estimates these changes will generate additional annual cost savings of between \$1.5 and \$2.0 million by reducing its manufacturing overhead footprint while simultaneously improving machine utilization in its existing plants. As a result, total annual synergies gained from the Cantech Acquisition are now expected to be between \$3.5 and \$6.0 million by the end of 2019, an increase from the prior estimate of between \$2.0 and \$4.0 million.

As a result of the closure, an estimated one-time charge of approximately \$6.0 million will be recorded upfront in the third quarter of 2018, primarily for non-cash impairments of property, plant and equipment and inventory. Total estimated cash costs of approximately \$2.5 million are expected to be incurred over the course of the next two years as it relates to the plant closure.

### *Normal Course Issuer Bid ("NCIB")*

The Company renewed its NCIB under which the Company is entitled to repurchase for cancellation up to 4,000,000 common shares of the Company at prevailing market prices over a twelve-month period starting on July 23, 2018. As of August 10, 2018, no shares have been repurchased under the NCIB.

### *Dividend Declaration*

On August 10, 2018, the Board of Directors declared a quarterly cash dividend of \$0.14 per common share payable on September 28, 2018 to shareholders of record at the close of business on September 14, 2018.

## *Blythewood, South Carolina Update*

As of August 10, 2018, the Company successfully completed customer trials and validation procedures with regard to the one remaining post-South Carolina Flood masking tape product. As such, the Company has begun efforts to recapture lost sales in that product line and continues to work on recapturing sales of its other masking tape and stencil products. While the timing and extent of these recoveries are uncertain, the Company does expect incremental improvement over time.

As previously communicated, since the South Carolina Flood in October 2015, the Company has worked to restore production capabilities and commercialize its suite of masking tape and stencil product offerings produced in the Blythewood, South Carolina manufacturing facility. While navigating the challenges of doing so, the Company lost most of its sales in those product lines and experienced significant delays in commercializing them in the new facility. Prior to June 30, 2018, the Company had commercialized its stencil products and all but one of its masking tape products.

### **Outlook**

The Company's expectations for the fiscal year have been updated to include the impact of the Polyair Acquisition and are as follows:

- Revenue growth in 2018 is expected to be between 16% and 18%, excluding any significant fluctuations in selling prices caused by unforeseen variations in raw material prices.
- Adjusted EBITDA for 2018 is expected to be between \$140 and \$150 million.
- Total capital expenditures for 2018 are still expected to be between \$80 and \$90 million.
- The Company still expects an 18% to 23% effective tax rate for 2018 and cash taxes paid in 2018 to be less than one third of the income tax expense in 2018. These expectations exclude the potential impact of changes in the mix of earnings between jurisdictions and any new guidance or legislative revisions made with respect to the Tax Cuts and Jobs Act ("TCJA") enacted into law in the United States on December 22, 2017.

The Company's expectations for the third quarter of 2018 are as follows:

- Revenue and adjusted EBITDA in the third quarter of 2018 are expected to be greater than in the third quarter of 2017.

### **Results of Operations**

#### **Revenue**

Revenue for the second quarter of 2018 totalled \$249.1 million, a \$38.9 million or 18.5% increase from \$210.2 million for the second quarter of 2017, primarily due to:

- An increase in average selling price, including the impact of product mix, of approximately 8.3% which had a favourable impact of approximately \$17.5 million primarily due to:
  - a favourable product mix variance primarily in certain tape and film product categories; and
  - price increases mainly to mitigate input cost increases in certain tape, film, and woven products; and
- Additional revenue of \$17.4 million from the Acquisitions.

Revenue for the second quarter of 2018 totalled \$249.1 million, an \$11.8 million or 5.0% increase from \$237.2 million for the first quarter of 2018, primarily due to:

- An increase in average selling price, including the impact of product mix, of approximately 5.7% which had a favourable impact of approximately \$13.6 million primarily due to:
  - a favourable product mix variance primarily in certain tape product categories; and
  - price increases mainly to mitigate input cost increases in certain tape and film product categories.

Revenue for the first six months of 2018 totalled \$486.3 million, a \$69.0 million or 16.5% increase from \$417.3 million for the same period in 2017, primarily due to:

- Additional revenue of \$33.5 million from the Acquisitions; and
- An increase in average selling price, including the impact of product mix, of approximately 8.0% which had a favourable impact of approximately \$33.3 million primarily due to:
  - a favourable product mix primarily in certain tape and film product categories; and
  - price increases mainly to mitigate input cost increases in certain tape, film, and woven product categories.

### Gross Profit and Gross Margin

Gross profit totalled \$54.5 million for the second quarter of 2018, a \$7.1 million or 15% increase from \$47.4 million for the second quarter of 2017. Gross margin was 21.9% in the second quarter of 2018 and 22.5% in the second quarter of 2017.

- Gross profit increased primarily due to additional gross profit from the Acquisitions, a favourable product mix variance, an increase in spread between selling prices and combined raw material and freight costs, and an increase in sales volume.
- Gross margin decreased primarily due to the Acquisitions, partially offset by an increase in spread between selling prices and combined raw material and freight costs.

Gross profit totalled \$54.5 million for the second quarter of 2018, a \$4.0 million or 8% increase from \$50.5 million for the first quarter of 2018. Gross margin was 21.9% in the second quarter of 2018 and 21.3% in the first quarter of 2018.

- Gross profit increased primarily due to an increase in spread between selling prices and combined raw material and freight costs, and a favorable product mix variance, partially offset by an increase in plant-related operating costs.
- Gross margin increased primarily due to an increase in spread between selling prices and combined raw material and freight costs, partially offset by an increase in plant-related operating costs.

Gross profit totalled \$104.9 million for the first six months of 2018, an \$8.4 million or 8.7% increase from \$96.5 million for the same period in 2017. Gross margin was 21.6% in the first six months of 2018 and 23.1% in the same period in 2017.

- Gross profit increased primarily due to additional gross profit from the Acquisitions, an increase in spread between selling prices and combined raw material and freight costs, a favourable product mix, and an increase in sales volume. These favourable items were partially offset by the non-recurrence of Insurance Proceeds of \$2.1 million.
- Gross margin decreased primarily due to the Acquisitions and the non-recurrence of Insurance Proceeds of \$2.1 million.

### Selling, General and Administrative Expenses

SG&A for the second quarter of 2018 totalled \$27.6 million, a \$1.1 million or 3.8% decrease from \$28.7 million for the second quarter of 2017. The decrease was primarily due to a decrease in share-based compensation of \$4.7 million driven primarily by the decrease in fair value of cash-settled awards, and a decrease in M&A Costs. These decreases were partially offset by (i) an increase in variable compensation, (ii) additional SG&A from the Cantech Acquisition and (iii) an increase in employee related costs to support growth initiatives.

SG&A for the second quarter of 2018 decreased \$1.5 million or 5.1% from \$29.1 million in the first quarter of 2018. The decrease was primarily due to a decrease in share-based compensation of \$1.1 million driven primarily by the decrease in fair value of cash-settled awards.

SG&A for the first six months of 2018 totalled \$56.7 million, a \$2.1 million or 3.8% increase from \$54.7 million in the same period in 2017. The increase was primarily due to (i) additional SG&A from the Cantech Acquisition, (ii) an increase in employee related costs to support growth initiatives and (iii) an increase in variable compensation, partially offset by a decrease in share-based compensation of \$5.5 million driven primarily by the decrease in fair value of cash-settled awards.

The following table presents M&A Costs included in SG&A:

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$	\$
M&A Costs included in SG&A	1.3	1.5	2.6	2.8	3.2



## Finance Costs

Finance costs for the second quarter of 2018 totalled \$5.3 million, a \$3.7 million increase from \$1.6 million in the second quarter of 2017, primarily due to an increase in interest expense resulting from (i) higher average debt outstanding, (ii) higher average cost of debt and (iii) debt issue costs written off as a result of the refinance and replacement of the 2014 Revolving Credit Facility, and an increase in foreign exchange losses.

Finance costs increased \$1.7 million for the second quarter of 2018 from \$3.6 million in the first quarter of 2018, primarily due to an increase in interest expense resulting mainly from debt issue costs written off as a result of the refinancing and replacement of the 2014 Revolving Credit Facility.

Finance costs for the first six months of 2018 totalled \$8.9 million, a \$5.7 million increase from \$3.1 million in the same period in 2017, primarily due to an increase in interest expense resulting from (i) higher average debt outstanding, (ii) higher average cost of debt and (iii) debt issue costs written off as a result of the refinancing and replacement of the 2014 Revolving Credit Facility, and an increase in foreign exchange losses.

## Income Taxes

The Company is subject to income taxation in multiple tax jurisdictions around the world. Accordingly, the Company's effective tax rate fluctuates depending on the geographic source of its earnings. The Company's effective tax rate is also impacted by tax planning strategies that the Company implements. Income tax expense is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

The table below reflects the calculation of the Company's effective tax rate (in millions of US dollars):

	Three months ended		Six months ended	
	<b>June 30, 2018</b>	June 30, 2017	<b>June 30, 2018</b>	June 30, 2017
	\$	\$	\$	\$
Income tax expense	<b>3.7</b>	4.0	<b>6.8</b>	8.9
Earnings before income tax expense	<b>18.7</b>	14.0	<b>33.2</b>	32.4
Effective tax rate	<b>19.6%</b>	28.3%	<b>20.5%</b>	27.4%

The decrease in the effective tax rate in the three and six months ended June 30, 2018 as compared to the same periods in 2017 was primarily due to the reduction in the US statutory corporate tax rate as a result of the TCJA, partially offset by an unfavourable change in the mix of earnings between jurisdictions and the elimination and limitation of certain deductions in the US as a result of the TCJA.

## IPG Net Earnings

IPG Net Earnings for the second quarter of 2018 totalled \$15.1 million, a \$4.9 million increase from \$10.2 million for the second quarter of 2017, primarily due to an increase in gross profit and a decrease in SG&A, partially offset by an increase in finance costs.

IPG Net Earnings for the second quarter of 2018 increased \$3.8 million from \$11.4 million for the first quarter of 2018, primarily due to an increase in gross profit.

IPG Net Earnings for the first six months of 2018 totalled \$26.5 million, a \$2.8 million increase from \$23.7 million for the same period in 2017, primarily due to an increase in gross profit and a decrease in income tax expense, partially offset by an increase in finance costs and SG&A.

## Non-GAAP Financial Measures

This MD&A contains certain non-GAAP financial measures as defined under applicable securities legislation, including EBITDA, adjusted EBITDA and free cash flows (please see the "EBITDA and Adjusted EBITDA" section below for a description and reconciliation of EBITDA and adjusted EBITDA and the "Cash Flows" section below for a description and reconciliation of free

cash flows). In determining these measures, the Company excludes certain items which are otherwise included in determining the comparable GAAP financial measures. The Company believes such non-GAAP financial measures improve the period-to-period comparability of the Company's results and provide investors with more insight into, and an additional tool to understand and assess, the performance of the Company's ongoing core business operations. As required by applicable securities legislation, the Company has provided definitions of those measures and reconciliations of those measures to the most directly comparable GAAP financial measures. Investors and other readers are encouraged to review the related GAAP financial measures and the reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures set forth below and should consider non-GAAP financial measures only as a supplement to, and not as a substitute for or as a superior measure to, measures of financial performance prepared in accordance with GAAP.

### **EBITDA and Adjusted EBITDA**

A reconciliation of the Company's EBITDA, a non-GAAP financial measure, to net earnings (loss), the most directly comparable GAAP financial measure, is set out in the EBITDA reconciliation table below. EBITDA should not be construed as earnings (loss) before income taxes, net earnings (loss) or cash flows from operating activities as determined by GAAP. The Company defines EBITDA as net earnings (loss) before (i) interest and other finance costs (income); (ii) income tax expense (benefit); (iii) amortization of intangible assets; and (iv) depreciation of property, plant and equipment. The Company defines adjusted EBITDA as EBITDA before (i) manufacturing facility closures, restructuring and other related charges (recoveries); (ii) advisory fees and other costs associated with mergers and acquisitions activity, including due diligence, integration and certain non-cash purchase price accounting adjustments ("M&A Costs"); (iii) share-based compensation expense (benefit); (iv) impairment of goodwill; (v) impairment (reversal of impairment) of long-lived assets and other assets; (vi) write-down on assets classified as held-for-sale; (vii) loss (gain) on disposal of property, plant and equipment; and (viii) other discrete items as shown in the table below. The terms "EBITDA" and "adjusted EBITDA" do not have any standardized meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. EBITDA and adjusted EBITDA are not measurements of financial performance under GAAP and should not be considered as alternatives to cash flows from operating activities or as alternatives to net earnings (loss) as indicators of the Company's operating performance or any other measures of performance derived in accordance with GAAP. The Company has included these non-GAAP financial measures because it believes that they allow investors to make a more meaningful comparison between periods of the Company's performance, underlying business trends and the Company's ongoing operations. The Company further believes these measures may be useful in comparing its operating performance with the performance of other companies that may have different financing and capital structures, and tax rates. Adjusted EBITDA excludes costs that are not considered by management to be representative of the Company's underlying core operating performance, including certain non-operating expenses, non-cash expenses and non-recurring expenses. In addition, EBITDA and adjusted EBITDA are used by management to set targets and are metrics that, among others, can be used by the Company's Human Resources and Compensation Committee to establish performance bonus metrics and payout, and by the Company's lenders and investors to evaluate the Company's performance and ability to service its debt, finance capital expenditures and acquisitions, and provide for the payment of dividends to shareholders. The Company experiences normal business seasonality that typically results in adjusted EBITDA that is proportionately higher in the second, third and fourth quarters of the year relative to the first quarter.

## EBITDA and Adjusted EBITDA Reconciliation to Net Earnings

(In millions of US dollars)

(Unaudited)

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$	\$
Net earnings	15.1	11.3	10.1	26.4	23.5
Interest and other finance costs	5.3	3.6	1.6	8.8	3.1
Income tax expense	3.7	3.1	4.0	6.8	8.9
Depreciation and amortization	9.9	10.1	8.4	20.0	16.6
<b>EBITDA</b>	<b>34.0</b>	<b>28.1</b>	<b>24.0</b>	<b>62.0</b>	<b>52.2</b>
Manufacturing facility closures, restructuring and other related (recoveries) charges	(0.4)	0.1	0.4	(0.3)	0.7
M&A Costs	1.7	1.5	2.6	3.2	3.4
Share-based compensation (benefit) expense	(0.7)	0.4	4.0	(0.3)	5.2
Impairment of long-lived assets and other assets	—	0.0	0.0	0.0	—
Loss on disposal of property, plant and equipment	0.1	0.1	0.1	0.2	0.1
<b>Adjusted EBITDA</b>	<b>34.6</b>	<b>30.2</b>	<b>31.1</b>	<b>64.8</b>	<b>61.5</b>

Adjusted EBITDA totalled \$34.6 million for the second quarter of 2018, a \$3.5 million or 11.3% increase from \$31.1 million for the second quarter of 2017, primarily due to an increase in gross profit and adjusted EBITDA contributed by Cantech, partially offset by an increase in SG&A.

Adjusted EBITDA for the second quarter of 2018 increased \$4.4 million or 14.6% from \$30.2 million for the first quarter of 2018, primarily due to an increase in gross profit.

Adjusted EBITDA totalled \$64.8 million for the first six months of 2018, a \$3.3 million or 5.4% increase from \$61.5 million for the same period in 2017, primarily due to an increase in gross profit and adjusted EBITDA contributed by Cantech, partially offset by an increase in SG&A and the non-recurrence of Insurance Proceeds of \$2.1 million realized in the first quarter of 2017.

### Off-Balance Sheet Arrangements

There have been no material changes with respect to off-balance sheet arrangements since December 31, 2017 outside of the Company's ordinary course of business. Reference is made to the section entitled "Off-Balance Sheet Arrangements" in the Company's MD&A as of and for the year ended December 31, 2017 ("2017 MD&A").

### Working Capital

The Company experiences some business seasonality that results in the Company's efforts to effectively manage its working capital resources. Typically, a larger investment in working capital is required in quarters during which accounts receivable increase due to higher actual sales and inventory increases due to higher anticipated future sales. Such quarters with higher actual sales and higher anticipated sales typically occur in the second, third, and fourth quarters. Furthermore, certain liabilities are accrued for throughout the year and are paid only during the first quarter of the following year.

The Company uses Days Inventory to measure inventory performance. Days Inventory increased to 70 for the second quarter of 2018 from 64 for the second quarter of 2017 and 67 for the first quarter of 2018. Days Inventory was 64 for the six months ended June 30, 2018 and 2017. Inventories increased \$23.0 million to \$151.2 million as of June 30, 2018 from \$128.2 million as of December 31, 2017, primarily due to an increase in production, including the utilization of completed capacity expansion projects, as part of a planned inventory build in anticipation of higher expected sales volume and annual maintenance shutdowns of certain facilities in the third quarter of 2018, as well as an increase in raw material costs. The calculations are shown in the following table:

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Cost of sales <sup>(1)</sup>	\$ 194.6	\$ 186.8	\$ 162.8	\$ 381.4	\$ 320.8
Days in period	91	90	91	181	181
Cost of sales per day <sup>(1)</sup>	\$ 2.14	\$ 2.08	\$ 1.79	\$ 2.11	\$ 1.77
Average inventory <sup>(1)</sup>	\$ 150.7	\$ 139.2	\$ 115.1	\$ 134.0	\$ 114.0
Days inventory	70	67	64	64	64

Days inventory is calculated as follows:

Cost of sales ÷ Days in period = Cost of sales per day

(Beginning inventory + Ending inventory) ÷ 2 = Average inventory

Average inventory ÷ Cost of goods sold per day = Days inventory

<sup>(1)</sup> In millions of US dollars

The Company uses Days Sales Outstanding (“DSO”) to measure the performance of its trade receivables. DSO was at 41 in the second quarters of 2018 and 2017, and 42 in the first quarter of 2018. DSO increased to 42 for the six months ended June 30, 2018 from 41 for the six months ended June 30, 2017. Trade receivables increased \$6.5 million to \$113.1 million as of June 30, 2018 from \$106.6 million as of December 31, 2017, primarily due to an increase in the amount and timing of revenue invoiced later in the second quarter of 2018 as compared to later in the fourth quarter of 2017. The calculations are shown in the following tables:

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenue <sup>(1)</sup>	\$ 249.1	\$ 237.2	\$ 210.2	\$ 486.3	\$ 417.3
Days in period	91	90	91	181	181
Revenue per day <sup>(1)</sup>	\$ 2.74	\$ 2.64	\$ 2.31	\$ 2.69	\$ 2.31
Trade receivables <sup>(1)</sup>	\$ 113.1	\$ 111.3	\$ 94.1	\$ 113.1	\$ 94.1
DSO	41	42	41	42	41

DSO is calculated as follows:

Revenue ÷ Days in period = Revenue per day

Ending trade receivables ÷ Revenue per day = DSO

<sup>(1)</sup> In millions of US dollars

Accounts payable and accrued liabilities decreased \$17.1 million to \$87.8 million as of June 30, 2018 from \$104.8 million as of December 31, 2017, primarily due to the timing of payments for inventory as well as SG&A.

## Liquidity and Borrowings

On June 14, 2018, the Company refinanced and replaced the 2014 Revolving Credit Facility with the new 2018 Credit Facility.

The Company relies upon cash flows from operations and funds available under its 2018 Credit Facility to meet working capital requirements, as well as to fund capital expenditures, business acquisitions, dividends, share repurchases, obligations under its other debt instruments, and other general corporate activities.

The Company’s liquidity risk management processes attempt to (i) maintain a sufficient amount of cash and (ii) ensure that the Company has financing sources for a sufficient authorized amount. The Company establishes budgets, cash estimates and cash management policies with a goal of ensuring it has the necessary funds to fulfill its obligations for the foreseeable future.

The Company believes it has sufficient cash on hand, and that it will generate sufficient funds from cash flows from operating activities, to meet its ongoing expected capital expenditures, working capital and discretionary dividend payment funding needs

for at least the next twelve months. In addition, funds available under the 2018 Credit Facility may be used, as needed, to fund more significant strategic initiatives.

The 2014 Revolving Credit Facility's outstanding balance of \$304.7 million was repaid in full and a corresponding write-off of debt issue costs of \$1.0 million was recorded as interest expense under the caption finance costs in earnings. In securing the 2018 Credit Facility, the Company incurred debt issue costs amounting to \$2.6 million which were capitalized and are being amortized using the straight-line method over the five-year term.

As of June 30, 2018, the 2018 Term Loan's outstanding balance amounted to \$200.0 million and the 2018 Revolving Credit Facility's outstanding balance amounted to \$110.7 million, for a total outstanding balance under the 2018 Credit Facility of \$310.7 million (\$308.1 million, net of \$2.6 million in unamortized debt issue costs). Including \$31.3 million in standby letters of credit, total utilization under the 2018 Credit Facility amounted to \$342.0 million. Accordingly, the Company's unused availability as of June 30, 2018 amounted to \$258.0 million. In addition, the Company had \$13.9 million of cash, yielding total cash and loan availability of \$271.9 million as of June 30, 2018 as compared to total cash and loan availability of \$186.6 million as of December 31, 2017. The increase in cash and loan availability is due primarily to incremental capacity available under the 2018 Credit Facility.

The 2018 Credit Facility matures on June 14, 2023 and bears an interest rate based, at the Company's option, on the London Interbank Offered Rate, the Federal Funds Rate, or Bank of America's prime rate, plus a spread varying between 25 and 250 basis points depending on the debt instrument's benchmark interest rate and the consolidated secured net leverage ratio (weighted average of 200 basis points as of June 30, 2018). The 2018 Credit Facility is secured by a first priority lien on all personal property of the Company and all current and future material subsidiaries.

The 2018 Credit Facility has two financial covenants, a consolidated secured net leverage ratio not to be more than 3.50 to 1.00, with an allowable temporary increase to 4.00 to 1.00 for the quarter in which the Company consummates an acquisition with a price not less than \$50 million and the following three quarters, and a consolidated interest coverage ratio not to be less than 3.00 to 1.00. The Company was in compliance with the consolidated secured net leverage ratio and consolidated interest coverage ratio, which were 2.33 and 12.27, respectively, as of June 30, 2018. In addition, the 2018 Credit Facility has certain non-financial covenants, such as covenants regarding indebtedness, investments and asset dispositions. The Company was in compliance with all covenants as of June 30, 2018.

## **Cash Flows**

Cash flows from operating activities increased in the second quarter of 2018 by \$7.9 million to \$27.5 million from \$19.6 million in the second quarter of 2017 primarily due to an increase in gross profit and a decrease in cash taxes paid mainly as a result of a US tax refund received as a result of the TCJA.

Cash flows from operating activities increased in the second quarter of 2018 by \$47.6 million to an inflow of \$27.5 million from an outflow of \$20.1 million in the first quarter of 2018 primarily due to a large seasonal increase in working capital in the first quarter of 2018 largely associated with the timing of payments for inventory and SG&A included in accounts payable and accrued liabilities.

Cash flows from operating activities decreased in the first six months of 2018 by \$1.6 million to \$7.4 million from \$9.0 million in the same period in 2017 primarily due to a greater increase in inventory as discussed in the section entitled "Working Capital", partially offset by an increase in gross profit and less of a decrease in accounts payable and accrued liabilities due to the timing of payments for inventory and SG&A.

Cash flows used for investing activities decreased in the second quarter of 2018 by \$75.6 million to \$16.6 million from \$92.2 million in the second quarter of 2017 primarily due to an increase in restricted cash in the second quarter of 2017 related to amounts transferred into a third-party trust account for the Cantech Acquisition that was subsequently released in the third quarter of 2017.

Cash flows used for investing activities decreased in the second quarter of 2018 by \$2.0 million to \$16.6 million from \$18.6 million in the first quarter of 2018 primarily due to a decrease in capital expenditures to support initiatives discussed in the section entitled "Capital Resources".

Cash flows used for investing activities decreased in the first six months of 2018 by \$79.2 million to \$35.1 million from \$114.3 million in the same period in 2017 primarily due to an increase in restricted cash in the second quarter of 2017 related to amounts transferred into a third-party trust account for the Cantech Acquisition that was subsequently released in the third quarter of 2017.

Cash flows from financing activities decreased in the second quarter of 2018 by \$78.8 million to an outflow of \$1.0 million from an inflow of \$77.8 million in the second quarter of 2017 and by \$36.4 million from an inflow of \$35.5 million in the first quarter of 2018. Cash flows from financing activities decreased in the first six months of 2018 by \$59.1 million to \$34.5 million from \$93.6 million in the same period in 2017. The decrease in all periods was primarily due to greater net borrowings in the prior year related to the Cantech Acquisition and in the first quarter of 2018 related to seasonal working capital needs.

The Company is including free cash flows (a non-GAAP financial measure as defined and reconciled below) because it is used by management and investors in evaluating the Company's performance and liquidity. Free cash flows does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. Free cash flows should not be interpreted to represent the total cash movement for the period as detailed in the Company's Financial Statements, or to represent residual cash flow available for discretionary purposes, as it excludes other mandatory expenditures such as debt service.

Free cash flows, defined by the Company as cash flows from operating activities less purchases of property, plant and equipment, increased in the second quarter of 2018 by \$11.9 million to \$11.1 million from negative \$0.8 million in the second quarter of 2017 and by \$49.6 million from negative \$38.5 million in the first quarter of 2018. The increase in both periods was primarily due to an increase in cash flows from operating activities.

Free cash flows increased in the first six months of 2018 by \$6.1 million to negative \$27.4 million from negative \$33.5 million in the same period in 2017 primarily due to a decrease in capital expenditures that can be attributed mainly to the completion of the Midland, North Carolina greenfield manufacturing facility in the second half of 2017.

A reconciliation of free cash flows to cash flows from operating activities, the most directly comparable GAAP financial measure, is set forth below.

### Free Cash Flows Reconciliation to Cash Flows from Operating Activities

(In millions of US dollars)

(Unaudited)

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$	\$
Cash flows from operating activities	27.5	(20.1)	19.6	7.4	9.0
Less purchases of property, plant and equipment	(16.4)	(18.4)	(20.4)	(34.7)	(42.5)
Free cash flows	11.1	(38.5)	(0.8)	(27.4)	(33.5)

### Capital Resources

Capital expenditures totalled \$34.7 million in the six months ended June 30, 2018, and were funded by borrowings and cash flows from operations. The Company had commitments to suppliers to purchase machines and equipment totalling approximately \$29.2 million as of June 30, 2018 that are expected to be paid out in the next twelve months. These capital expenditures and commitments are primarily to support the Capstone Greenfield Project, the Midland Expansion Project, and other strategic and growth initiatives discussed in the section entitled "Capital Resources" in the Company's December 31, 2017 MD&A. All such initiatives are progressing substantially as planned both in terms of timeline and expenditure levels.

### Contractual Obligations

There have been no material changes with respect to contractual obligations since December 31, 2017 outside of the Company's ordinary course of business. Reference is made to the section entitled "Contractual Obligations" in the Company's 2017 MD&A.

### Capital Stock and Dividends

As of June 30, 2018, there were 58,817,410 common shares of the Company outstanding.

The Company's share-based compensation plans include: stock options, Stock Appreciation Rights ("SAR"), Performance Share Units ("PSU"), Restricted Share Units ("RSU") and Deferred Share Units ("DSU").

On March 7, 2018, the Board of Directors approved the addition of RSUs as an available cash-settled award type. An RSU, as defined by the Amended and Restated Performance and Restricted Share Unit Plan, is a right to receive a cash payment equal to the five trading days volume weighted average price ("VWAP") of a common share of the Company on the Toronto Stock Exchange ("TSX") upon completion of time-based vesting conditions. Grants of RSUs to employees of the Company are on a discretionary basis and subject to the Board of Directors' approval. The fair value of RSUs is based on the five trading days VWAP of the Company's common shares on the TSX at the end of each reporting period. The RSUs are expensed over the vesting period beginning from the date of grant through February 15th of the fourth calendar year following the date of grant, unless vesting is accelerated based on retirement eligibility, death or disability.

The table below summarizes share-based compensation activity that occurred during the following periods:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
<b>Equity-settled</b>				
Stock options granted	—	—	<b>242,918</b>	—
Stock options exercised	<b>10,000</b>	161,875	<b>17,500</b>	226,875
<b>Cash-settled</b>				
DSUs granted	<b>36,204</b>	32,280	<b>43,203</b>	40,242
DSUs settled	<b>37,668</b>	—	<b>37,668</b>	—
PSUs granted	—	—	<b>284,571</b>	358,386
PSUs settled <sup>(1)</sup>	<b>117,605</b>	208,800	<b>335,465</b>	208,800
PSUs forfeited/cancelled	<b>3,638</b>	—	<b>3,638</b>	6,198
RSUs granted	—	—	<b>113,047</b>	—
SARs exercised	<b>40,000</b>	—	<b>147,500</b>	13,250
Cash settlements (in millions of US dollars)	\$ <b>2.8</b>	\$ 4.2	\$ <b>7.9</b>	\$ 4.4

<sup>(1)</sup> The table below summarizes the Target Shares ("Target Shares" are 100% of the PSUs granted) and performance adjustments on settled PSUs :

Grant Date	Date Settled	Target Shares	Performance	PSUs settled
June 11, 2014	June 22, 2017	139,200	150%	208,800
March 14, 2015	March 21, 2018	217,860	100%	217,860
May 14, 2015	May 22, 2018	115,480	100%	115,480
May 20, 2015	May 28, 2018	4,250	50%	2,125

As of June 30, 2018, \$5.0 million was recorded in share-based compensation liabilities, current, and \$2.2 million was recorded in share-based compensation liabilities, non-current.

The table below presents the share-based compensation expense (benefit) recorded in earnings in SG&A by award type (in millions of US dollars):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Equity-settled	<b>0.1</b>	—	<b>0.2</b>	0.1
Cash-settled	<b>(0.9)</b>	3.9	<b>(0.5)</b>	5.0
<b>Total</b>	<b>(0.7)</b>	4.0	<b>(0.3)</b>	5.2

The Company paid cash dividends of \$0.14 per common share on March 30 and June 29, 2018 to shareholders of record at the close of business on March 20 and June 15, 2018, respectively, for an aggregate amount of \$16.5 million.

On August 10, 2018, the Company declared a quarterly cash dividend of \$0.14 per common share payable on September 28, 2018 to shareholders of record at the close of business on September 14, 2018.

The dividends paid and payable in 2018 by the Company are “eligible dividends” as defined in subsection 89(1) of the *Income Tax Act* (Canada).

The Company renewed its NCIB under which the Company is entitled to repurchase for cancellation up to 4,000,000 common shares of the Company at prevailing market prices over a twelve-month period starting on July 23, 2018. As of August 10, 2018, no shares have been repurchased under the renewed NCIB.

### Financial Risk, Objectives and Policies

The Company is exposed to a risk of change in cash flows due to the fluctuations in interest rates on its variable rate borrowings. To minimize the potential long-term cost of floating rate borrowings, the Company entered into interest rate swap agreements that are designated as cash flow hedges.

The terms of the interest rate swap agreements are as follows (in millions of US dollars, except as noted):

Effective Date	Maturity	Notional amount	Settlement	Fixed interest rate paid
		\$		%
March 18, 2015	November 18, 2019	40.0	Monthly	1.6100
August 18, 2015	August 20, 2018	60.0	Monthly	1.1970
June 8, 2017	June 20, 2022	40.0	Monthly	1.7900
July 21, 2017	July 18, 2022	CDN 90.0 <sup>(1)</sup>	Monthly	1.6825
August 20, 2018	August 18, 2023	60.0	Monthly	2.0450

<sup>(1)</sup> The notional amount will decrease by 18.0 million Canadian dollars ("CDN") on the 18<sup>th</sup> of July each year until settlement.

### Legal Matters

The Company is engaged from time-to-time in various legal proceedings and claims that have arisen in the ordinary course of business. The outcome of all of the proceedings and claims against the Company is subject to future resolution, including the uncertainties of litigation. Based on information currently known to the Company and after consultation with external legal counsel, management believes that the probable ultimate resolution of any such proceedings and claims, individually or in the aggregate, will not have a material adverse effect on the financial condition of the Company, taken as a whole, and accordingly, no material amounts have been recorded as of June 30, 2018.

### Critical Accounting Judgments, Estimates and Assumptions

The preparation of the Company’s Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Significant changes in the underlying assumptions could result in significant changes to these estimates. Consequently, management reviews these estimates on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The judgments, estimates and assumptions applied in the Financial Statements were the same as those applied in the Company’s most recent annual audited consolidated financial statements, except for (i) the estimate of the provision for income taxes, which is determined in the Financial Statements using the estimated weighted average annual effective income tax rate applied to the earnings before income tax expense of the interim period, which may have to be adjusted in a subsequent interim period of the financial year if the estimate of the annual income tax rate changes and (ii) the re-measurement of the defined benefit liability, which is required at year-end and if triggered by plan amendment or settlement during interim periods. The Financial Statements should be read in conjunction with the Company’s 2017 annual audited consolidated financial statements.



## **New Standards adopted as of January 1, 2018**

IFRS 15 – *Revenue from Contracts with Customers* replaces IAS 18 – *Revenue*, IAS 11 – *Construction Contracts* and some revenue related interpretations. IFRS 15 establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized at a point in time or over time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018. Management has chosen the modified retrospective method of adoption, and as a result, the 2017 comparative period has not been restated to conform to the new IFRS 15 requirements. There was no material impact to the Company's Financial Statements as a result of adopting IFRS 15.

The Company adopted IFRS 9 (2013) - *Financial Instruments* effective January 1, 2015. IFRS 9 (2014) - *Financial Instruments* differs in some regards from IFRS 9 (2013). IFRS 9 (2014) includes updated guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new expected credit loss model for calculating impairment. The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exceptions. The new guidance resulted in enhancements to the Company's model that calculates the allowance for doubtful accounts on trade receivables for expected credit losses. There was no material impact to the Company's Financial Statements as a result of adopting IFRS 9 (2014) and the 2017 comparative period has not been restated.

## **New Standards and Interpretations Issued but Not Yet Effective**

Certain new standards, amendments and interpretations, and improvements to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company. Management anticipates that all the relevant pronouncements will be adopted in the first reporting period following the date of application. Information on new standards, amendments and interpretations, and improvements to existing standards, which could potentially impact the Company's Financial Statements, are detailed as follows:

IFRS 16 - *Leases*, which will replace IAS 17 - *Leases*, introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees, as well as new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The Company will adopt IFRS 16 effective January 1, 2019. The Company is acting as a lessee for its leases. Management has performed a preliminary review of the new guidance as compared to the Company's current accounting policies, including a review of the various practical expedients and other elections available under the new guidance, an analysis of the Company's significant existing leases for treatment under the new guidance and an analysis estimating the potential impact on the Company's Financial Statements. Management will review these impacts in more detail before deciding on the adoption method. Based on the Company's current portfolio of leases, management expects:

- an increase in long-term assets and liabilities, due to the new requirements to record right-of-use assets and related liabilities for operating leases by lessees;
- an increase in cash flows from operating activities and a decrease in cash flows from financing activities, as operating lease payments will be reclassified to financing cash flows as components of interest and lease obligations; and
- an insignificant change to net earnings, but with reclassification of amounts between costs within operating profit and finance costs as operating lease costs are reclassified into amortization of the right-of-use asset and interest expense on the related lease obligation.
- an increase in adjusted EBITDA, as operating lease rent expense will be classified as amortization of the right-of-use asset and interest expense on the related lease obligation, both of which are items excluded from the non-GAAP measure.

Management will continue to refine its models and assumptions in 2018 for these calculations, develop reporting processes to meet the new disclosure requirements, and analyze any new leases or changes to the Company's current lease portfolio.

On March 29, 2018, the IASB issued its revised *Conceptual Framework for Financial Reporting* ("*Conceptual Framework*"). This replaces the previous version of the *Conceptual Framework* issued in 2010. The revised *Conceptual Framework* will be effective on November 1, 2020. Management is currently assessing but has not yet determined the impact of this new standard on the Company's financial statements.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

## **Internal Control Over Financial Reporting**

In accordance with the Canadian Securities Administrators' National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 52-109"), the Company has filed interim certificates signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that, among other things, report on the design of disclosure controls and procedures and design of internal control over financial reporting. With regards to the annual certification requirements of NI 52-109, the Company relies on the statutory exemption contained in section 8.1 of NI 52-109, which allows it to file with the Canadian securities regulatory authorities the certificates required under the Sarbanes-Oxley Act of 2002 at the same time such certificates are required to be filed in the United States.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with GAAP (as derived in accordance with IFRS) in its consolidated financial statements. The CEO and CFO of the Company have evaluated whether there were changes to the Company's internal control over financial reporting during the Company's most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. As a result of the Cantech Acquisition on July 1, 2017, the internal control over financial reporting utilized by the Company prior to the acquisition became the internal control over financial reporting of Cantech, and the Company is currently in the process of evaluating and integrating Cantech's historical internal controls over financial reporting with the Company's. During the three and six months ended June 30, 2018, other than continuing changes to internal control processes resulting from the Cantech Acquisition, there have been no material changes to the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Management's assessment of internal control over financial reporting as of June 30, 2018 did not include the Cantech Acquisition. Cantech is included in the Company's Financial Statements and represents 10.4% of total assets as of June 30, 2018 and 6.5% and 6.6% of revenues for the three and six months then ended, respectively. Subject to the foregoing, the CEO and CFO have concluded that the Company's internal control over financial reporting as of June 30, 2018 was effective.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of its inherent limitation, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Additional Information**

Additional information relating to the Company, including its Form 20-F filed in lieu of an Annual Information Form for 2017, is available on the Company's website ([www.itape.com](http://www.itape.com)) as well as under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and on EDGAR at [www.sec.gov](http://www.sec.gov).

## Forward-Looking Statements

Certain statements and information included in this MD&A constitute “forward-looking information” within the meaning of applicable Canadian securities legislation and “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (collectively, “forward-looking statements”), which are made in reliance upon the protections provided by such legislation for forward-looking statements. All statements other than statements of historical facts included in this MD&A, including statements regarding the Company’s industry and the Company’s outlook, prospects, plans, financial position, future transactions, acquisitions and partnerships, capital expenditures, sales and financial results, inventory, income tax and effective tax rate, availability of funds and credit, expected credit spread, level of indebtedness, payment of dividends, capital and other significant expenditures, working capital requirements, liquidity, selling prices, fluctuations in costs, the impacts of new accounting standards, judgments, estimates, assumptions, litigation and business strategy, may constitute forward-looking statements. These forward-looking statements are based on current beliefs, assumptions, expectations, estimates, forecasts and projections made by the Company’s management. Words such as “may,” “will,” “should,” “expect,” “continue,” “intend,” “estimate,” “anticipate,” “plan,” “foresee,” “believe” or “seek” or the negatives of these terms or variations of them or similar terminology are intended to identify such forward-looking statements. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, these statements, by their nature, involve risks and uncertainties and are not guarantees of future performance. Such statements are also subject to assumptions concerning, among other things: business conditions and growth or declines in the Company’s industry, the Company’s customers’ industries and the general economy; the impact of changes to tariffs and other international trade developments; the anticipated benefits from the Company’s greenfield projects and manufacturing facility expansions; the impact of selling price increases; the impact of fluctuations in raw material prices and freight costs; the anticipated benefits from the Company’s acquisitions and partnerships; the expected financial performance and benefits of the Polyair transaction; the expected annual cost savings and total annual synergies from the Cantech Acquisition; the Company’s growth strategy and the strength of the Company’s competitive position moving forward; the anticipated benefits from the Company’s capital expenditures; the quality, and market reception, of the Company’s products; the Company’s anticipated business strategies; risks and costs inherent in litigation; the Company’s ability to maintain and improve quality and customer service; anticipated trends in the Company’s business; anticipated cash flows from the Company’s operations; availability of funds under the Company’s 2018 Credit Facility; changes to accounting rules and standards; and the Company’s ability to continue to control costs. The Company can give no assurance that these statements and expectations will prove to have been correct. Actual outcomes and results may, and often do, differ from what is expressed, implied or projected in such forward-looking statements, and such differences may be material. Readers are cautioned not to place undue reliance on any forward-looking statement. For additional information regarding some important factors that could cause actual results to differ materially from those expressed in these forward-looking statements and other risks and uncertainties, and the assumptions underlying the forward-looking statements, you are encouraged to read “Item 3. Key Information - Risk Factors,” “Item 5 Operating and Financial Review and Prospects (Management’s Discussion & Analysis)” and statements located elsewhere in the Company’s annual report on Form 20-F for the year ended December 31, 2017 and the other statements and factors contained in the Company’s filings with the Canadian securities regulators and the US Securities and Exchange Commission. Each of the forward-looking statements speaks only as of the date of this MD&A. The Company will not update these statements unless applicable securities laws require it to do so.

**Intertape Polymer Group Inc.**  
**Unaudited Interim Condensed Consolidated Financial Statements**  
**June 30, 2018**

Unaudited Interim Condensed Consolidated Financial Statements

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**Intertape Polymer Group Inc.****Consolidated Earnings**

Periods ended June 30,

(In thousands of US dollars, except per share amounts)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Revenue	<b>249,072</b>	210,158	<b>486,301</b>	417,278
Cost of sales	<b>194,605</b>	162,783	<b>381,382</b>	320,763
Gross profit	<b>54,467</b>	47,375	<b>104,919</b>	96,515
Selling, general and administrative expenses	<b>27,626</b>	28,717	<b>56,749</b>	54,690
Research expenses	<b>3,233</b>	2,643	<b>6,454</b>	5,622
	<b>30,859</b>	31,360	<b>63,203</b>	60,312
Operating profit before manufacturing facility closures, restructuring and other related (recoveries) charges	<b>23,608</b>	16,015	<b>41,716</b>	36,203
Manufacturing facility closures, restructuring and other related (recoveries) charges	<b>(407)</b>	410	<b>(300)</b>	677
Operating profit	<b>24,015</b>	15,605	<b>42,016</b>	35,526
Finance costs (Note 3)				
Interest	<b>3,945</b>	1,283	<b>6,407</b>	2,431
Other expense, net	<b>1,328</b>	274	<b>2,453</b>	702
	<b>5,273</b>	1,557	<b>8,860</b>	3,133
Earnings before income tax expense	<b>18,742</b>	14,048	<b>33,156</b>	32,393
Income tax expense (Note 4)				
Current	<b>765</b>	2,753	<b>1,753</b>	5,446
Deferred	<b>2,901</b>	1,222	<b>5,033</b>	3,441
	<b>3,666</b>	3,975	<b>6,786</b>	8,887
Net earnings	<b>15,076</b>	10,073	<b>26,370</b>	23,506
Net earnings (loss) attributable to:				
Company shareholders	<b>15,144</b>	10,199	<b>26,503</b>	23,661
Non-controlling interests	<b>(68)</b>	(126)	<b>(133)</b>	(155)
	<b>15,076</b>	10,073	<b>26,370</b>	23,506
Earnings per share attributable to Company shareholders (Note 5)				
Basic	<b>0.26</b>	0.17	<b>0.45</b>	0.40
Diluted	<b>0.26</b>	0.17	<b>0.45</b>	0.40

The accompanying notes are an integral part of the interim condensed consolidated financial statements. Note 3 presents additional information on consolidated earnings.

**Intertape Polymer Group Inc.**  
**Consolidated Comprehensive Income**  
Periods ended June 30,  
(In thousands of US dollars)  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	<b>2018</b>	2017	<b>2018</b>	2017
	\$	\$	\$	\$
Net earnings	<b>15,076</b>	10,073	<b>26,370</b>	23,506
Other comprehensive income (loss)				
Change in fair value of interest rate swap agreements designated as cash flow hedges <sup>(1)</sup>	<b>515</b>	87	<b>2,247</b>	273
Change in cumulative translation adjustments	<b>(3,781)</b>	2,475	<b>(4,367)</b>	4,912
Items that will be subsequently reclassified to net earnings	<b>(3,266)</b>	2,562	<b>(2,120)</b>	5,185
Comprehensive income for the period	<b>11,810</b>	12,635	<b>24,250</b>	28,691
Comprehensive income (loss) for the period attributable to:				
Company shareholders	<b>12,336</b>	12,749	<b>24,842</b>	28,523
Non-controlling interests	<b>(526)</b>	(114)	<b>(592)</b>	168
	<b>11,810</b>	12,635	<b>24,250</b>	28,691

<sup>(1)</sup> Presented net of deferred income tax expense of \$53 and \$345 for the three and six months ended June 30, 2018, respectively, and \$53 and \$167 for the three and six months ended June 30, 2017, respectively. Refer to Note 9 for additional information on the Company's cash flow hedges.

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

**Intertape Polymer Group Inc.**  
**Consolidated Changes in Equity**

Six months ended June 30, 2017

(In thousands of US dollars, except for number of common shares)

(Unaudited)

	Capital stock		Contributed surplus	Accumulated other comprehensive loss			Total equity attributable to Company shareholders	Non-controlling interests	Total equity	
	Number	Amount		Cumulative translation adjustment account	Reserve for cash flow hedges	Total				Deficit
		\$		\$	\$	\$				\$
Balance as of December 31, 2016	59,060,335	351,203	29,585	(19,511)	(136)	(19,647)	(124,605)	236,536	6,407	242,943
Transactions with owners										
Exercise of stock options (Note 8)	226,875	1,362						1,362		1,362
Change in excess tax benefit on exercised share-based awards		500	(500)					—		—
Change in excess tax benefit on outstanding share-based awards			(2,198)				1,442	(756)		(756)
Share-based compensation (Note 8)			(7,874)				(5,228) <sup>(1)</sup>	(13,102)		(13,102)
Share-based compensation expense credited to capital on options exercised (Note 8)		495	(495)					—		—
Dividends on common shares (Note 8)							(16,546)	(16,546)		(16,546)
	226,875	2,357	(11,067)				(20,332)	(29,042)		(29,042)
Net earnings (loss)							23,661	23,661	(155)	23,506
Other comprehensive income										
Change in fair value of interest rate swap agreements designated as cash flow hedges <sup>(2)</sup> (Note 9)					273	273		273		273
Change in cumulative translation adjustments				4,589		4,589		4,589	323	4,912
				4,589		4,862		4,862	323	5,185
Comprehensive income for the period				4,589	273	4,862	23,661	28,523	168	28,691
Non-controlling interest arising from investment in Capstone <sup>(3)</sup>										
									15	15
Balance as of June 30, 2017	59,287,210	353,560	18,518	(14,922)	137	(14,785)	(121,276)	236,017	6,590	242,607

(1) Presented net of income tax benefit of \$1,442 for the six months ended June 30, 2017.

(2) Presented net of deferred income tax expense of \$167 for the six months ended June 30, 2017.

(3) Refers to the purchase by the Company of shares in Capstone Polyweave Private Limited, a newly-formed enterprise in India (d/b/a "Capstone"), on June 23, 2017.

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

**Intertape Polymer Group Inc.**  
**Consolidated Changes in Equity**

Six months ended June 30, 2018

(In thousands of US dollars, except for number of common shares)

(Unaudited)

	Capital stock		Contributed surplus	Accumulated other comprehensive loss			Total equity attributable to Company shareholders	Non-controlling interests	Total equity	
	Number	Amount		Cumulative translation adjustment account	Reserve for cash flow hedges	Total				Deficit
		\$		\$	\$	\$				\$
Balance as of December 31, 2017	58,799,910	350,759	17,530	(15,057)	1,588	(13,469)	(106,687)	248,133	6,589	254,722
Transactions with owners										
Exercise of stock options (Note 8)	17,500	163						163		163
Change in excess tax benefit on exercised share-based awards		7	(7)					—		—
Change in excess tax benefit on outstanding share-based awards			(568)					(568)		(568)
Share-based compensation (Note 8)			195				(284) <sup>(1)</sup>	(89)		(89)
Share-based compensation expense credited to capital on options exercised (Note 8)		48	(48)					—		—
Dividends on common shares (Note 8)							(16,467)	(16,467)		(16,467)
	17,500	218	(428)				(16,751)	(16,961)		(16,961)
Net earnings (loss)							26,503	26,503	(133)	26,370
Other comprehensive income (loss)										
Change in fair value of interest rate swap agreements designated as cash flow hedges <sup>(2)</sup> (Note 9)					2,247	2,247		2,247		2,247
Change in cumulative translation adjustments				(3,908)		(3,908)		(3,908)	(459)	(4,367)
				(3,908)	2,247	(1,661)		(1,661)	(459)	(2,120)
Comprehensive income for the period				(3,908)	2,247	(1,661)	26,503	24,842	(592)	24,250
Capital transactions with non-controlling shareholders of Capstone (Note 10)							2,485	2,485	10,915	13,400
<b>Balance as of June 30, 2018</b>	<b>58,817,410</b>	<b>350,977</b>	<b>17,102</b>	<b>(18,965)</b>	<b>3,835</b>	<b>(15,130)</b>	<b>(94,450)</b>	<b>258,499</b>	<b>16,912</b>	<b>275,411</b>

(1) Presented net of income tax benefit of \$96 for the six months ended June 30, 2018.

(2) Presented net of deferred income tax expense of \$345 for the six months ended June 30, 2018.

The accompanying notes are an integral part of the interim condensed consolidated financial statements.



**Intertape Polymer Group Inc.**  
**Consolidated Cash Flows**  
Periods ended June 30,  
(In thousands of US dollars)  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net earnings	15,076	10,073	26,370	23,506
Adjustments to net earnings				
Depreciation and amortization	9,947	8,363	20,006	16,638
Income tax expense	3,666	3,975	6,786	8,887
Interest expense	3,945	1,283	6,407	2,431
Share-based compensation (benefit) expense	(714)	3,976	(304)	5,164
Loss on foreign exchange	921	2	1,690	193
Pension and other post-retirement expense related to defined benefit plans	700	698	1,426	1,383
Other adjustments for non-cash items	253	(388)	917	(745)
Income taxes received (paid), net	385	(2,461)	363	(2,762)
Contributions to defined benefit plans	(1,004)	(1,836)	(1,516)	(2,429)
Cash flows from operating activities before changes in working capital items	33,175	23,685	62,145	52,266
Changes in working capital items				
Trade receivables	(1,025)	(1,176)	(5,836)	(3,406)
Inventories	(724)	(2,927)	(23,577)	(12,355)
Parts and supplies	(708)	(557)	(1,185)	(1,164)
Other current assets	(1,604)	(1,200)	(1,686)	1,245
Accounts payable and accrued liabilities and share-based compensation liabilities, current	(877)	2,196	(21,672)	(26,263)
Provisions	(743)	(432)	(825)	(1,311)
	(5,681)	(4,096)	(54,781)	(43,254)
Cash flows from operating activities	27,494	19,589	7,364	9,012
<b>INVESTING ACTIVITIES</b>				
Purchases of property, plant and equipment	(16,352)	(20,392)	(34,748)	(42,516)
Restricted cash <sup>(1)</sup>	—	(71,785)	—	(71,785)
Other investing activities	(199)	14	(355)	33
Cash flows from investing activities	(16,551)	(92,163)	(35,103)	(114,268)
<b>FINANCING ACTIVITIES</b>				
Proceeds from borrowings	373,310	113,966	474,633	153,477
Repayment of borrowings	(361,421)	(27,081)	(416,657)	(41,289)
Payments of debt issue costs	(2,618)	—	(2,618)	—
Interest paid	(2,179)	(1,391)	(4,529)	(2,599)
Proceeds from exercise of stock options	93	1,256	163	1,362
Dividends paid	(8,140)	(8,365)	(16,473)	(16,681)
Other financing activities	1	(545)	1	(638)
Cash flows from financing activities	(954)	77,840	34,520	93,632
Net increase (decrease) in cash	9,989	5,266	6,781	(11,624)
Effect of foreign exchange differences on cash	(1,128)	1,353	(1,935)	1,393
Cash, beginning of period	5,078	4,106	9,093	20,956
Cash, end of period	13,939	10,725	13,939	10,725

(1) Restricted cash for the three and six months ended June 30, 2017 consists of cash transferred into a third-party trust account as part of the Company's acquisition of Canadian Technical Tape Ltd. The funds were released from the trust account following the acquisition closing on July 1, 2017.

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

**Intertape Polymer Group Inc.**  
**Consolidated Balance Sheets**  
As of  
(In thousands of US dollars)

	<b>June 30, 2018</b>	December 31, 2017
	(Unaudited)	(Audited)
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	13,939	9,093
Trade receivables	113,089	106,634
Inventories	151,218	128,233
Parts and supplies	19,734	18,571
Other current assets	17,242	16,188
	<u>315,222</u>	<u>278,719</u>
Property, plant and equipment	325,344	313,520
Goodwill	48,673	41,690
Intangible assets	43,834	47,318
Deferred tax assets	26,317	27,627
Other assets	10,982	6,998
Total assets	<u>770,372</u>	<u>715,872</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	87,755	104,812
Share-based compensation liabilities, current (Note 8)	4,974	10,265
Call option redemption liability (Note 9)	11,864	12,725
Provisions, current	341	657
Borrowings, current (Note 7)	24,388	14,979
	<u>129,322</u>	<u>143,438</u>
Borrowings, non-current (Note 7)	308,718	264,484
Pension, post-retirement and other long-term employee benefits	29,056	29,298
Share-based compensation liabilities, non-current (Note 8)	2,167	4,984
Deferred tax liabilities	19,570	13,769
Provisions, non-current	2,680	3,221
Other liabilities	3,448	1,956
Total liabilities	<u>494,961</u>	<u>461,150</u>
<b>EQUITY</b>		
Capital stock (Note 8)	350,977	350,759
Contributed surplus	17,102	17,530
Deficit	(94,450)	(106,687)
Accumulated other comprehensive loss	(15,130)	(13,469)
Total equity attributable to Company shareholders	<u>258,499</u>	<u>248,133</u>
Non-controlling interests	16,912	6,589
Total equity	<u>275,411</u>	<u>254,722</u>
Total liabilities and equity	<u>770,372</u>	<u>715,872</u>

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

## **Intertape Polymer Group Inc.**

### **Notes to Unaudited Interim Condensed Consolidated Financial Statements**

June 30, 2018

(In US dollars, tabular amounts in thousands, except per share data and as otherwise noted)

(Unaudited)

#### **1 - GENERAL BUSINESS DESCRIPTION**

Intertape Polymer Group Inc. (the “Parent Company”), incorporated under the *Canada Business Corporations Act*, has its principal administrative offices in Montreal, Québec, Canada and in Sarasota, Florida, U.S.A. The address of the Parent Company’s registered office is 800 Place Victoria, Suite 3700, Montreal, Québec H4Z 1E9, c/o Fasken Martineau DuMoulin LLP. The Parent Company’s common shares are listed on the Toronto Stock Exchange (“TSX”) in Canada.

The Parent Company and its subsidiaries (together referred to as the “Company”) develop, manufacture and sell a variety of paper and film based pressure sensitive and water activated tapes, polyethylene and specialized polyolefin films, woven coated fabrics and complementary packaging systems for industrial and retail use.

Intertape Polymer Group Inc. is the Company’s ultimate parent.

#### **2 - ACCOUNTING POLICIES**

##### **Basis of Presentation and Statement of Compliance**

The unaudited interim condensed consolidated financial statements (“financial statements”) present the Company’s consolidated balance sheets as of June 30, 2018 and December 31, 2017, as well as its consolidated earnings, comprehensive income and cash flows for the three and six months ended June 30, 2018 and 2017 and the changes in equity for the six months ended June 30, 2018 and 2017.

These financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 – *Interim Financial Reporting* and are expressed in United States (“US”) dollars. Accordingly, certain information and footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), have been omitted or condensed. These financial statements use the same accounting policies, except for the adoption of the new standards described below, and use the same methods of computation as compared with the Company’s most recent annual audited consolidated financial statements, except for (i) the estimate of the provision for income taxes, which is determined in these financial statements using the estimated weighted average annual effective income tax rate applied to the earnings before income tax expense of the interim period, which may have to be adjusted in a subsequent interim period of the financial year if the estimate of the annual income tax rate changes, and (ii) the re-measurement of the defined benefit liability, which is required at year-end and if triggered by plan amendment or settlement during interim periods.

These financial statements reflect all adjustments which are, in the opinion of management, necessary to present a fair statement of the results for these interim periods. These adjustments are of a normal recurring nature.

These financial statements were authorized for issuance by the Company’s Board of Directors on August 10, 2018.

##### **Critical Accounting Judgments, Estimates and Assumptions**

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Significant changes in the underlying assumptions could result in significant changes to these estimates. Consequently, management reviews these estimates on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The judgments, estimates and assumptions applied in these financial statements were the same as those applied in the Company’s most recent annual audited consolidated financial statements other than (as noted above) the accounting policies and methods of computation for the estimate of the provision for income taxes and the re-measurement of the defined benefit liability.

## **New Standards Adopted as of January 1, 2018**

IFRS 15 – *Revenue from Contracts with Customers* replaces IAS 18 – *Revenue*, IAS 11 – *Construction Contracts* and some revenue related interpretations. IFRS 15 establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized at a point in time or over time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018. Management has chosen the modified retrospective method of adoption, and as a result, the 2017 comparative period has not been restated to conform to the new IFRS 15 requirements. There was no material impact to the Company’s financial statements as a result of adopting IFRS 15.

The Company adopted IFRS 9 (2013) - *Financial Instruments* effective January 1, 2015. IFRS 9 (2014) - *Financial Instruments* differs in some regards from IFRS 9 (2013). IFRS 9 (2014) includes updated guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new expected credit loss model for calculating impairment. The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exceptions. The new guidance resulted in enhancements to the Company's model that calculates the allowance for doubtful accounts on trade receivables for expected credit losses. There was no material impact to the Company’s financial statements as a result of adopting IFRS 9 (2014) and the 2017 comparative period has not been restated.

## **New Standards and Interpretations Issued but Not Yet Effective**

Certain new standards, amendments and interpretations, and improvements to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company. Management anticipates that all the relevant pronouncements will be adopted in the first reporting period following the date of application. Information on new standards, amendments and interpretations, and improvements to existing standards, which could potentially impact the Company’s financial statements, are detailed as follows:

IFRS 16 - *Leases*, which will replace IAS 17 - *Leases*, introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees, as well as new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The Company will adopt IFRS 16 effective January 1, 2019. The Company is acting as a lessee for its leases. Management has performed a preliminary review of the new guidance as compared to the Company's current accounting policies, including a review of the various practical expedients and other elections available under the new guidance, an analysis of the Company's significant existing leases for treatment under the new guidance and an analysis estimating the potential impact on the financial statements. Management will review these impacts in more detail before deciding on the adoption method. Based on the Company's current portfolio of leases, management expects:

- an increase in long-term assets and liabilities, due to the new requirements to record right-of-use assets and related liabilities for operating leases by lessees;
- an increase in cash flows from operating activities and a decrease in cash flows from financing activities, as operating lease payments will be reclassified to financing cash flows as components of interest and lease obligations; and
- an insignificant change to net earnings, but with reclassification of amounts between costs within operating profit and finance costs as operating lease costs are reclassified into amortization of the right-of-use asset and interest expense on the related lease obligation.

Management will continue to refine its models and assumptions in 2018 for these calculations, develop reporting processes to meet the new disclosure requirements, and analyze any new leases or changes to the Company's current lease portfolio.

On March 29, 2018, the IASB issued its revised *Conceptual Framework for Financial Reporting* ("*Conceptual Framework*"). This replaces the previous version of the *Conceptual Framework* issued in 2010. The revised *Conceptual Framework* will be effective on November 1, 2020. Management is currently assessing but has not yet determined the impact of this new standard on the Company’s financial statements.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company’s financial statements.

### 3 - INFORMATION INCLUDED IN CONSOLIDATED EARNINGS

The following table describes the charges incurred by the Company which are included in the Company's consolidated earnings:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Employee benefit expense</b>				
Wages, salaries and other short-term benefits	46,271	40,000	92,972	80,184
Share-based compensation (benefit) expense (Note 8)	(714)	3,976	(304)	5,164
Pension, post-retirement and other long-term employee benefit plans:				
Defined benefit plans	719	718	1,464	1,425
Defined contributions plans	1,253	1,253	3,014	2,558
	<u>47,529</u>	<u>45,947</u>	<u>97,146</u>	<u>89,331</u>
<b>Finance costs - Interest</b>				
Interest on borrowings	3,280	1,497	5,764	2,769
Amortization of debt issue costs on borrowings	1,279	147	1,469	276
Interest capitalized to property, plant and equipment	(614)	(361)	(826)	(614)
	<u>3,945</u>	<u>1,283</u>	<u>6,407</u>	<u>2,431</u>
<b>Finance costs - Other expense, net</b>				
Foreign exchange loss	915	1	1,684	192
Other costs, net	413	273	769	510
	<u>1,328</u>	<u>274</u>	<u>2,453</u>	<u>702</u>
<b>Additional information</b>				
Depreciation of property, plant and equipment	8,933	7,482	17,960	14,908
Amortization of intangible assets	1,013	881	2,045	1,730
Impairment of assets	207	361	553	217

### 4 - INCOME TAXES

The calculation of the Company's effective tax rate is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Income tax expense	\$ 3,666	\$ 3,975	\$ 6,786	\$ 8,887
Earnings before income tax expense	\$ 18,742	\$ 14,048	\$ 33,156	\$ 32,393
Effective tax rate	19.6%	28.3%	20.5%	27.4%

The decrease in the effective tax rate in the three and six months ended June 30, 2018 as compared to the same periods in 2017 was primarily due to the reduction in the US statutory corporate tax rate as a result of the Tax Cuts and Jobs Act ("TCJA"), partially offset by an unfavourable change in the mix of earnings between jurisdictions and the elimination and limitation of certain deductions in the US as a result of the TCJA.

## 5 - EARNINGS PER SHARE

The weighted average number of common shares outstanding is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Basic	58,811,586	59,153,920	58,806,485	59,144,024
Effect of stock options	292,313	403,523	317,492	399,307
Effect of performance share units	—	—	—	289,820
Diluted	59,103,899	59,557,443	59,123,977	59,833,151
	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Stock options that were anti-dilutive and not included in diluted earnings per share	242,918	—	242,918	—

The performance share unit ("PSU") plan was amended on February 17, 2017 to provide for only cash settlement of awards. Prior to the amendment, PSUs were to be settled in common shares of the Company and were included in the calculation of weighted average diluted common shares, to the extent they were dilutive, when the applicable performance conditions had been satisfied. Subsequent to amendment, there is no impact of PSUs in the calculation of weighted average diluted common shares. For the three and six months ended June 30, 2017 there were nil and 885,718 PSUs, respectively, which met the performance criteria and were included in the calculation of weighted average diluted shares outstanding.

## 6 - COMMITMENTS

The following table summarizes information related to commitments to purchase machinery and equipment:

	June 30, 2018	December 31, 2017
Commitments to purchase machinery and equipment	\$ 29,167	\$ 29,281

## 7 - BORROWINGS

On June 14, 2018, the Company entered into a new five-year, \$600.0 million credit facility ("2018 Credit Facility") with a syndicated lending group, refinancing and replacing the Company's previous \$450.0 million credit facility that was due to mature in November 2019 ("2014 Revolving Credit Facility").

The 2014 Revolving Credit Facility's outstanding balance of \$304.7 million was repaid in full and a corresponding write-off of debt issue costs of \$1.0 million was recorded as interest expense under the caption finance costs in earnings. In securing the 2018 Credit Facility, the Company incurred debt issue costs amounting to \$2.6 million which were capitalized and are being amortized using the straight-line method over the five-year term.

The 2018 Credit Facility consists of a \$200.0 million term loan ("2018 Term Loan") and a \$400.0 million revolving credit facility ("2018 Revolving Credit Facility") with the 2018 Term Loan amortizing 35% over five years. The 2018 Credit Facility also includes an incremental accordion feature of \$200.0 million, which would enable the Company to increase the limit of this facility (subject to the credit agreement's terms and lender approval) to \$800.0 million if needed. The 2018 Credit Facility matures on June 14, 2023 and bears an interest rate based, at the Company's option, on the London Inter-bank Offered Rate, the Federal Funds Rate, or Bank of America's prime rate, plus a spread varying between 25 and 250 basis points depending on the debt instrument's benchmark interest rate and the consolidated secured net leverage ratio (weighted average of 200 basis points as of June 30, 2018).

As of June 30, 2018, the 2018 Term Loan's outstanding balance amounted to \$200.0 million and the 2018 Revolving Credit Facility's outstanding balance amounted to \$110.7 million, for a total outstanding balance under the 2018 Credit Facility of \$310.7 million (\$308.1 million, net of \$2.6 million in unamortized debt issue costs). Including \$31.3 million in standby letters of credit, total utilization under the 2018 Credit Facility amounted to \$342.0 million. Accordingly, the Company's unused availability as of June 30, 2018 amounted to \$258.0 million.

The 2018 Credit Facility is secured by a first priority lien on all personal property of the Company and all current and future material subsidiaries.

The 2018 Credit Facility has two financial covenants, a consolidated secured net leverage ratio not to be more than 3.50 to 1.00, with an allowable temporary increase to 4.00 to 1.00 for the quarter in which the Company consummates an acquisition with a price not less than \$50 million and the following three quarters, and a consolidated interest coverage ratio not to be less than 3.00 to 1.00. The Company was in compliance with the consolidated secured net leverage ratio and consolidated interest coverage ratio, which were 2.33 and 12.27, respectively, as of June 30, 2018. In addition, the 2018 Credit Facility has certain non-financial covenants, such as covenants regarding indebtedness, investments, and asset dispositions.

Borrowings are comprised of the following:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
	\$	\$
2018 Credit Facility <sup>(1)</sup>	<b>308,161</b>	—
2014 Revolving Credit Facility <sup>(2)</sup>	—	254,773
Powerband Revolving Line of Credit <sup>(3)</sup>	<b>9,823</b>	9,563
Finance lease liabilities	<b>6,503</b>	8,817
Forgivable government loan <sup>(4)</sup>	<b>5,215</b>	4,660
Other loans	<b>3,404</b>	1,650
	<b>333,106</b>	279,463
Less: current borrowings	<b>24,388</b>	14,979
	<b>308,718</b>	264,484

<sup>(1)</sup> The 2018 Credit Facility is presented net of unamortized related debt issue costs, amounting to \$2.6 million as of June 30, 2018.

<sup>(2)</sup> The 2014 Revolving Credit Facility is presented net of unamortized related debt issue costs, amounting to \$1.4 million as of December 31, 2017.

<sup>(3)</sup> "Powerband Revolving Line of Credit" refers to debt maintained by Powerband Industries Private Limited (doing business as "Powerband").

<sup>(4)</sup> The forgivable government loan is shown net of imputed interest amounting to \$0.3 million as of June 30, 2018 and December 31, 2017.

## Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

	Borrowings, non-current (excluding finance lease liabilities)	Borrowings, current (excluding finance lease liabilities)	Finance lease liabilities	Total
	\$	\$	\$	\$
Balance as of December 31, 2017	260,300	10,346	8,817	279,463
Cash flows:				
Proceeds	462,353	12,280	—	474,633
Repayments	(402,995)	(11,252)	(2,410)	(416,657)
Debt issuance costs	(2,618)	—	—	(2,618)
Non-cash:				
Additions – separately acquired (Note 10)	—	—	102	102
Additions through business acquisitions	346	533	—	879
Amortization of debt issuance costs	424	—	—	424
Write-off of debt issuance costs	1,045	—	—	1,045
Foreign exchange and other	(3,414)	(745)	(6)	(4,165)
Reclassification	(10,271)	10,271	—	—
<b>Balance as of June 30, 2018</b>	<b>305,170</b>	<b>21,433</b>	<b>6,503</b>	<b>333,106</b>



## 8 - CAPITAL STOCK

### Common Shares

The Company's common shares outstanding as of June 30, 2018 and December 31, 2017 were 58,817,410 and 58,799,910, respectively.

### Dividends

The cash dividends paid during the period were as follows:

Declared Date	Paid date	Per common share amount	Shareholder record date	Common shares issued and outstanding	Aggregate payment <sup>(1)</sup>
March 7, 2018	March 30, 2018	\$0.14	March 20, 2018	58,807,410	\$8,333
May 9, 2018	June 29, 2018	\$0.14	June 15, 2018	58,817,410	\$8,140

<sup>(1)</sup> The aggregate dividend payment amount presented in the table above has been adjusted for the impact of foreign exchange rates on cash payments to shareholders.

### Share Repurchases

Under its normal course issuer bid ("NCIB"), the Company may repurchase for cancellation up to 4,000,000 common shares of the Company at prevailing market prices during the twelve-month period ending July 16, 2018.

There were no share repurchases during the three and six months ended June 30, 2018 and 2017. As of June 30, 2018, there were 3,512,700 shares available for repurchase under the NCIB.

The NCIB which expired on July 16, 2018 was renewed for a twelve-month period starting July 23, 2018. There were no shares repurchased under the renewed NCIB as of August 10, 2018.

### Stock Options

The following tables summarize information related to stock options (in Canadian dollars ("CDN") where noted):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Stock options granted	—	—	242,918	—
Weighted average exercise price per stock option granted	—	—	CDN\$21.76	—
Stock options exercised	10,000	161,875	17,500	226,875
Weighted average exercise price per stock option exercised	CDN\$12.04	CDN\$10.33	CDN\$12.04	CDN\$8.00
				June 30, 2018
Stock options outstanding				1,059,793
Weighted average exercise price per stock option outstanding				CDN\$14.46

During the six months ended June 30, 2018, the weighted average fair value of stock options granted was estimated using the Black-Scholes option pricing model, taking into account the following weighted average assumptions:

	Six months ended June 30, 2018
Expected life	4.8 years
Expected volatility <sup>(1)</sup>	32.09%
Risk-free interest rate	2.05%
Expected dividends	3.30%
Stock price at grant date	CDN\$21.76
Exercise price of awards	CDN\$21.76
Foreign exchange rate USD to CDN	1.2809

<sup>(1)</sup> Expected volatility was calculated by applying a weighted average of the daily closing price change on the TSX for a term commensurate with the expected life of each grant.

### Restricted Share Units

On March 7, 2018, the Board of Directors approved the addition of restricted share units ("RSUs") as an available cash-settled award type. An RSU, as defined by the Amended and Restated PSU and RSU Plan, is a right to receive a cash payment equal to the five trading days volume weighted average price ("VWAP") of a common share of the Company on the TSX upon completion of time-based vesting conditions. Grants of RSUs to employees of the Company are on a discretionary basis and subject to the Board of Directors' approval. The purpose of an RSU is to provide award holders with a proprietary interest in the Company to: (a) increase the incentives of those award holders who share primary responsibility for the management, growth and protection of the business of the Company; (b) furnish an incentive to such award holders to continue their services for the Company; and (c) provide a means through which the Company may attract potential employees. The fair value of RSUs is based on the five trading days VWAP of the Company's common shares on the TSX at the end of each reporting period. The RSUs are expensed over the vesting period beginning from the date of grant through February 15th of the fourth calendar year following the date of grant, unless vesting is accelerated based on retirement eligibility, death or disability. On March 21, 2018, 113,047 RSUs were granted at a weighted average fair value of \$16.29. As of June 30, 2018 the weighted average fair value of the RSUs outstanding was \$13.48.

## Deferred Share Units

The following table summarizes information related to deferred share units ("DSUs"):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
DSUs granted	36,204	32,280	43,203	40,242
Weighted average fair value per DSU granted	\$14.50	\$18.58	\$14.94	\$18.30
DSUs settled	37,668	—	37,668	—
Weighted average fair value per DSU settled	\$14.50	—	\$14.50	—
Cash payments on DSUs settled	\$546	—	\$546	—

	June 30, 2018
DSUs outstanding	172,962
Weighted average fair value per DSU outstanding	\$13.48

## Performance Share Units

The following table summarizes information about PSUs during the period:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
PSUs granted	—	—	284,571	358,386
Weighted average fair value per PSU granted	—	—	\$17.84	\$16.15
PSU forfeited/cancelled	3,638	—	3,638	6,198
PSUs settled <sup>(1)</sup>	117,605	208,800	335,465	208,800
Weighted average fair value per PSU settled	\$14.50	\$27.74	\$15.87	\$27.74
Cash payments on PSUs settled <sup>(2)</sup>	\$1,895	\$4,174	\$5,863	\$4,174

<sup>(1)</sup> The following table summarizes the Target Shares ("Target Shares" are 100% of the PSUs granted) and performance adjustments on settled PSUs included in the table above:

Grant Date	Date Settled	Target Shares	Performance	PSUs settled
June 11, 2014	June 22, 2017	139,200	150%	208,800
March 14, 2015	March 21, 2018	217,860	100%	217,860
May 14, 2015	May 22, 2018	115,480	100%	115,480
May 20, 2015	May 28, 2018	4,250	50%	2,125

<sup>(2)</sup> Cash payments on PSUs settled includes the fair value of the PSUs plus the cash dividends per common share declared and paid by the Company from the date of grant of the PSUs to the settlement date.

The weighted average fair value of PSUs granted was estimated based on a Monte Carlo simulation model, considering the following weighted average assumptions:

	Six months ended June 30,	
	2018	2017
Expected life	3 years	3 years
Expected volatility <sup>(1)</sup>	30%	34%
US risk-free interest rate	2.43%	1.57%
Canadian risk-free interest rate	1.96%	N/A
Expected dividends <sup>(2)</sup>	0%	0%
Performance period starting price <sup>(3)</sup>	CDN\$21.13	CDN\$22.26
Closing stock price on TSX as of the estimation date	CDN\$20.59	CDN\$21.94

- (1) Expected volatility was calculated based on the daily dividend adjusted closing price change on the TSX for a term commensurate with the expected life of the grant.
- (2) A participant will receive a cash payment from the Company upon PSU settlement that is equivalent to the number of settled PSUs multiplied by the amount of cash dividends per share declared by the Company between the date of grant and the settlement date. As such, there is no impact from expected future dividends in the Monte Carlo simulation model.
- (3) The performance period starting price is measured as the VWAP for the common shares of the Company on the TSX on the grant date.

The following table summarizes information about PSUs outstanding as of:

	June 30, 2018
PSUs outstanding	1,048,779
Weighted average fair value per PSU outstanding	\$9.38

Based on the Company's performance adjustment factors (see additional information below), the number of PSUs earned if all of the outstanding PSUs were to be settled at June 30, 2018 would be as follows:

Grant Date	Performance
March 21, 2016	50%
December 20, 2016	0%
March 20, 2017	0%
March 21, 2018	50%

*Grant details for PSUs granted prior to December 31, 2017:*

The number of PSUs which will be eligible to vest can range from 0% to 150% of the Target Shares ("Target Shares" are 100% of the PSUs granted) based on the Company's total shareholder return ("TSR") ranking relative to a specified peer group of companies ("Peer Group") over the measurement period as outlined in the table below:

TSR Ranking Relative to the Peer Group	Percent of Target Shares Vested
76th percentile or higher	150%
51st-75th percentile	100%
25th-50th percentile	50%
Less than the 25th percentile	0%

The performance and vesting period is the period from the date of grant through the third anniversary of the date of grant. The PSUs are expensed over the vesting period.

*Grant details for PSUs granted subsequent to December 31, 2017:*

The number of PSUs which will be eligible to vest is determined by multiplying the number of PSUs awarded by the adjustment factors as follows:

- 50% based on the Company's TSR ranking relative to the Peer Group over the measurement period as set out in the table below; and
- 50% based on the Company's average return on invested capital over the measurement period as compared to internally developed thresholds (the "ROIC Performance") as set out in the table below.

The relative TSR performance adjustment factor is determined as follows:

TSR Ranking Relative to the Peer Group	Percent of Target Shares Vested
90th percentile or higher	200%
75th percentile	150%
50th percentile	100%
25th percentile	50%
Less than the 25th percentile	0%

The ROIC Performance adjustment factor is determined as follows:

ROIC Performance	Percent of Target Shares Vested
1st Tier	0%
2nd Tier	50%
3rd Tier	100%
4th Tier	150%

The TSR performance and ROIC Performance adjustment factors between the numbers set out in the two tables above is interpolated on a straight-line basis.

The performance period is the period from January 1st in the year of grant through December 31st of the third calendar year following the date of grant. The PSUs are expensed over the vesting period beginning from the date of grant through February 15th of the fourth calendar year following the date of grant.

### **Stock Appreciation Rights**

There were no stock appreciation rights ("SARs") outstanding as of June 30, 2018. The following tables summarize information regarding SARs:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
SARs exercised	40,000	—	147,500	13,250
Base price	CDN\$7.56	CDN\$7.56	CDN\$7.56	CDN\$7.56
Cash payments on exercise, including awards exercised but not yet paid	\$ 323	—	\$ 1,481	\$ 155

## Summary of Share-based Compensation Expense and Share-based Compensation Liabilities

The following table summarizes share-based compensation expense (benefit) recorded in earnings in selling, general and administrative ("SG&A") expense:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Stock options	135	45	195	121
PSUs	(1,122)	2,923	(750)	4,202
RSUs	162	—	221	—
DSUs	184	814	127	834
SARs	(73)	194	(97)	7
	<u>(714)</u>	<u>3,976</u>	<u>(304)</u>	<u>5,164</u>

The following table summarizes share-based liabilities recorded in the consolidated balance sheets as of:

	June 30, 2018	December 31, 2017
	\$	\$
Share-based compensation liabilities, current		
PSUs <sup>(1)</sup>	2,517	5,709
RSUs <sup>(1)</sup>	42	—
DSUs <sup>(2)</sup>	2,415	2,956
SARs	—	1,600
	<u>4,974</u>	<u>10,265</u>
Share-based compensation liabilities, non-current		
PSUs <sup>(1)</sup>	1,989	4,984
RSUs <sup>(1)</sup>	178	—
	<u>2,167</u>	<u>4,984</u>

(1) Includes dividend equivalents accrued.

(2) Includes effect of DSUs received in lieu of cash for directors' fees not yet granted.

## 9 - FINANCIAL INSTRUMENTS

The Company is exposed to a risk of change in cash flows due to the fluctuations in interest rates on its variable rate borrowings. To minimize the potential long-term cost of floating rate borrowings, the Company entered into interest rate swap agreements that are designated as cash flow hedges.

The terms of the interest rate swap agreements are as follows:

Effective Date	Maturity	Notional amount \$	Settlement	Fixed interest rate paid %
March 18, 2015	November 18, 2019	40,000	Monthly	1.6100
August 18, 2015	August 20, 2018	60,000	Monthly	1.1970
June 8, 2017	June 20, 2022	40,000	Monthly	1.7900
July 21, 2017	July 18, 2022	CDN\$90,000 <sup>(1)</sup>	Monthly	1.6825
August 20, 2018	August 18, 2023	60,000	Monthly	2.0450

(1) The notional amount will decrease by CDN\$18.0 million on the 18th of July of each year until settlement.

As of June 30, 2018 and December 31, 2017, the carrying amount and fair value of the interest rate swap agreements was an asset included in other assets in the consolidated balance sheet, amounting to \$4.7 million and \$2.1 million, respectively.

The following table summarizes information regarding the change in fair value of the interest rate swap agreements:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Increase in fair value of the derivatives used for calculating hedge effectiveness	568	140	2,592	440

### Classification and Fair Value of Financial Instruments

The carrying amount of the financial assets and liabilities classified as measured at amortized cost is considered a reasonable approximation of fair value. The fair value of cash, trade receivables, supplier rebates and other receivables, accounts payable and accrued liabilities and the call option redemption liability is comparable to their respective carrying amounts, given their short maturity periods.

#### *Long-term Borrowings and Interest Rate Swaps*

The Company categorizes long-term borrowings and interest rate swaps as Level 2 on the three-level fair value hierarchy, meaning the fair value is estimated using a valuation technique based on observable market data, either directly or indirectly. The fair value of long-term borrowings, mainly bearing interest at variable rates, is estimated using observable market interest rates of similar variable rate loans with similar risk and credit standing.

The Company measures the fair value of its interest rate swap agreements using discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of a reporting period) and contract interest rates, discounted as a rate that reflects the credit risk of various counterparties.

#### *Option Agreements*

On July 4, 2017, the Company and the non-controlling shareholders of Powerband Industries Private Limited executed a binding term sheet that confirmed that the Company's call option on all of the shares owned by the non-controlling shareholders had been triggered and substantially reaffirmed the exit terms of the shareholders' agreement executed between the parties on September 2, 2016. The Company's call option obligation under the term sheet and shareholders' agreement with the non-controlling shareholders of Powerband Industries Private Limited is recorded in the call option liability on the consolidated balance sheet in the amount of \$11.9 million and \$12.7 million as of June 30, 2018 and December 31, 2017, respectively.

As of August 10, 2018, no shares have been purchased by the Company under this agreement as the parties continue to work through the exit provisions stipulated in the term sheet.

### **10 - BUSINESS ACQUISITIONS**

On May 11, 2018 the Company acquired substantially all of the assets and assumed certain liabilities of Airtrax Polymers Private Limited (d/b/a "Airtrax") ("Airtrax Acquisition") through the Company's controlled subsidiary, Capstone, of which the Company currently owns 55%. Airtrax manufactures and sells woven products that are used in various applications, including in the building and construction industry.

As part of the agreement, the minority shareholders of Capstone contributed in kind certain assets and liabilities valued at approximately \$13 million that were formerly attributed to Airtrax's woven product manufacturing operations in exchange for newly-issued shares of Capstone. As a result of the in-kind contribution, the Company recorded a \$10.9 million increase to equity attributable to non-controlling interest as well as a \$2.5 million credit to deficit in the consolidated changes in equity for the six months ended June 30, 2018. As of this reporting date, the Company held a 52% controlling ownership stake in Capstone while the minority shareholders held a 48% non-controlling interest in Capstone, as reflected in the June 30, 2018 balance sheet.

On August 10, 2018 the Company acquired additional shares of Capstone in exchange for approximately \$3.6 million in cash as part of the same overall transaction. As a result of this purchase, the Company now has a controlling 55% ownership stake in Capstone with the minority shareholders of Capstone owning 45%.

The Airtrax purchase agreement contains customary indemnification provisions. As of June 30, 2018, there were no outstanding

obligations or indemnifications, other than the commitment to purchase additional shares of Capstone.

The Airtrax Acquisition is being accounted for using the acquisition method of accounting. The acquisition is expected to further enhance and extend the Company's product offering, and provide a globally competitive position in woven products. The Company expects a significant portion of the acquisition's purchase price to be assigned to goodwill and intangible assets. Management is in the process of allocating the fair value of the opening balance sheet purchase price allocation and post-closing equity transactions and was not yet completed as of June 30, 2018.

The preliminary fair values of net identifiable assets acquired at the date of acquisition were as follows:

	<u>May 11, 2018</u>
	\$
<b>Current assets</b>	
Trade receivables <sup>(1)</sup>	1,296
Inventories	1,565
Parts and supplies	54
Other current assets	477
Property, plant and equipment	2,785
	<u>6,177</u>
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	959
Borrowings, current	533
Borrowings, non-current	346
Pension, post-retirement and other long-term employee benefits	8
	<u>1,846</u>
Fair value of net identifiable assets acquired	<u><u>4,331</u></u>

<sup>(1)</sup> The gross contractual amounts receivable were \$1.3 million. As of June 30, 2018, the Company has collected substantially all of the outstanding trade receivables.

Goodwill recognized is primarily related to growth expectations, expected future profitability, and expected cost synergies. The Company does not expect any of the goodwill to be deductible for income tax purposes.

The preliminary fair value of goodwill at the date of acquisition was as follows:

	<u>May 11, 2018</u>
	\$
Fair value of increase to non-controlling interest	10,915
Effect of change in IPG's ownership interest in Capstone	2,485
Less: fair value of net identifiable assets acquired	<u>4,331</u>
Goodwill	<u><u>9,069</u></u>

The Airtrax Acquisition's impact on the Company's consolidated earnings was as follows:

	<u>May 11 through June</u>
	<u>30, 2018</u>
	\$
Revenue	1,286
Net earnings	195



Had the Airtrax Acquisition been effective as of January 1, 2018, the impact on the Company's consolidated earnings would have been as follows:

	Six months ended June 30, 2018
	\$
Revenue	6,134
Net earnings <sup>(1)</sup>	570

<sup>(1)</sup> Adjustments to arrive at net earnings included (i) the alignment of accounting policies to IFRS, (ii) the removal of acquisition costs incurred by Airtrax, and (iii) the effect of income tax expense using the effective tax rate of the acquisition post-closing.

The Company's acquisition-related costs of \$0.1 million are excluded from the consideration transferred and are included in the Company's consolidated earnings primarily in SG&A for the six months ended June 30, 2018.

## 11 - POST REPORTING EVENTS

### *Non-Adjusting Events*

- On August 10, 2018, the Company declared a quarterly cash dividend of \$0.14 per common share payable on September 28, 2018 to shareholders of record at the close of business on September 14, 2018. The estimated amount of this dividend payment is \$8.2 million based on 58,817,410 of the Company's common shares issued and outstanding as of August 10, 2018.
- On August 3, 2018, the Company acquired 100% of the outstanding equity value in Polyair Inter Pack Inc. ("Polyair") for total cash consideration of approximately \$146 million, subject to certain purchase price adjustments. The Company funded the acquisition with funds available under the Company's 2018 Credit Facility. Polyair, a private company, is in the protective packaging business and has seven manufacturing facilities and a distribution center in North America. Polyair's primary products consist of bubble cushioning, foam, mailers and air pillow systems. The acquisition is expected to further enhance and extend the Company's product offering, and provide additional scale of protective packaging solutions. The acquisition will be accounted for using the acquisition method of accounting. The Company expects a significant portion of the acquisition purchase price to be assigned to goodwill and intangible assets. The Company does not expect any of the goodwill to be deductible for income tax purposes. Management is not yet able to provide a breakout of the purchase price allocation due to the timing of the acquisition and the post-closing working capital adjustment.

No other significant adjusting or non-adjusting events have occurred between the reporting date of these financial statements and the date of authorization.