



2019

3rd 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>September 30, 2019</b>	June 30, 2019	March 31, 2019	December 31, 2018
	\$	\$	\$	\$
Revenue	<b>293,598</b>	295,609	277,823	287,656
Cost of sales	<b>229,535</b>	230,915	220,027	231,015
Gross profit	<b>64,063</b>	64,694	57,796	56,641
Gross margin	<b>21.8%</b>	21.9%	20.8%	19.7%
Selling, general and administrative expenses	<b>35,025</b>	36,433	32,683	31,460
Research expenses	<b>3,326</b>	3,023	3,168	2,644
	<b>38,351</b>	39,456	35,851	34,104
Operating profit before manufacturing facility closures, restructuring and other related charges	<b>25,712</b>	25,238	21,945	22,537
Manufacturing facility closures, restructuring and other related charges	<b>1,614</b>	3,875	304	1,583
Operating profit	<b>24,098</b>	21,363	21,641	20,954
Finance costs (income)				
Interest	<b>7,764</b>	8,565	7,693	6,713
Other (income) expense, net	<b>(459)</b>	798	(655)	2,854
	<b>7,305</b>	9,363	7,038	9,567
Earnings before income tax expense	<b>16,793</b>	12,000	14,603	11,387
Income tax expense (benefit)				
Current	<b>6,584</b>	5,977	1,175	(323)
Deferred	<b>(2,332)</b>	(439)	2,896	1,093
	<b>4,252</b>	5,538	4,071	770
Net earnings	<b>12,541</b>	6,462	10,532	10,617
Net earnings (loss) attributable to:				
Company shareholders	<b>12,528</b>	6,566	10,491	10,634
Non-controlling interests	<b>13</b>	(104)	41	(17)
	<b>12,541</b>	6,462	10,532	10,617
Earnings per share attributable to Company shareholders				
Basic	<b>0.21</b>	0.11	0.18	0.18
Diluted	<b>0.21</b>	0.11	0.18	0.18
Weighted average number of common shares outstanding				
Basic	<b>58,877,185</b>	58,760,473	58,652,366	58,831,432
Diluted	<b>59,058,758</b>	58,955,643	58,924,107	59,055,824

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

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
	\$	\$	\$	\$
Revenue	279,062	249,072	237,229	237,404
Cost of sales	221,719	194,625	186,777	183,381
Gross profit	57,343	54,447	50,452	54,023
Gross margin	20.5%	21.9%	21.3%	22.8%
Selling, general and administrative expenses	34,230	27,653	29,123	34,125
Research expenses	2,926	3,233	3,221	2,889
	37,156	30,886	32,344	37,014
Operating profit before manufacturing facility closures, restructuring and other related charges (recoveries)	20,187	23,561	18,108	17,009
Manufacturing facility closures, restructuring and other related charges (recoveries)	5,777	(407)	107	466
Operating profit	14,410	23,968	18,001	16,543
Finance costs (income)				
Interest	3,952	3,945	2,462	2,525
Other (income) expense, net	(1,497)	1,328	1,125	(4,693)
	2,455	5,273	3,587	(2,168)
Earnings before income tax expense (benefit)	11,955	18,695	14,414	18,711
Income tax expense (benefit)				
Current	(496)	765	988	(1,064)
Deferred	2,742	2,901	2,132	(1,405)
	2,246	3,666	3,120	(2,469)
Net earnings	9,709	15,029	11,294	21,180
Net earnings (loss) attributable to:				
Company shareholders	9,663	15,097	11,359	21,319
Non-controlling interests	46	(68)	(65)	(139)
	9,709	15,029	11,294	21,180
Earnings per share attributable to Company shareholders				
Basic	0.16	0.26	0.19	0.36
Diluted	0.16	0.26	0.19	0.36
Weighted average number of common shares outstanding				
Basic	58,817,410	58,811,586	58,801,327	58,831,518
Diluted	59,081,293	59,103,899	59,146,693	59,154,509

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 November 8, 2019, 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 nine months ended September 30, 2019 and 2018 ("Financial Statements") and "Item 5 Operating and Financial Review and Prospects (Management's Discussion & Analysis)" located in the Company's annual report on Form 20-F for the year ended December 31, 2018 and the other statements contained in the Company's filings with the Canadian securities regulators and the US Securities and Exchange Commission. 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 ("USD"). Variance, ratio and percentage changes in this MD&A are based on unrounded numbers and therefore can give rise to rounding differences.

This MD&A contains certain non-GAAP financial measures as defined under applicable securities legislation, including adjusted net earnings (loss), adjusted earnings (loss) per share, EBITDA, adjusted EBITDA, and free cash flows (please see the "Adjusted Net Earnings (Loss)" section below for a description and reconciliation of adjusted net earnings (loss) and adjusted earnings (loss) per share, "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 in the section entitled "Non-GAAP Financial Measures" 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.

## Overview

The Company reported a 5.2% increase in revenue for the third quarter of 2019 compared to the third quarter of 2018 and a 13.3% increase in revenue for the first nine months of 2019 compared to the same period in 2018. The increase in revenue in both periods was primarily due to the Polyair<sup>(1)</sup> and Maiweave<sup>(2)</sup> acquisitions.

Gross margin was 21.8% in the third quarter of 2019 and 20.5% in the third quarter of 2018. The improvement was primarily due to an increase in spread between selling prices and combined raw material and freight costs, partially offset by the dilutive impact of the Maiweave acquisition. Gross margin increased to 21.5% in the first nine months of 2019 compared to 21.2% in the first nine months of 2018 primarily due to the increase in spread between selling prices and combined raw material and freight costs, partially offset by the dilutive impact of the Polyair and Maiweave acquisitions.

Net earnings attributable to the Company's shareholders ("IPG Net Earnings") for the third quarter of 2019 increased to \$12.5 million (\$0.21 basic and diluted earnings per share) from \$9.7 million for the third quarter of 2018 (\$0.16 basic and diluted earnings per share). The increase was primarily due to an increase in gross profit and a decrease in manufacturing facility closures, restructuring and other related charges resulting mainly from the non-recurrence of a one-time charge for non-cash impairments of property, plant and equipment and inventory related to the closure of the Johnson City, Tennessee manufacturing facility in the third quarter of 2018. These favourable impacts were partially offset by increases in (i) interest expense mainly due to a higher average cost of debt, including the impact of the Senior Unsecured Notes<sup>(3)</sup>, (ii) income tax expense mainly due to the elimination of certain tax benefits as a result of the Tax Cuts and Jobs Act ("TCJA") enacted into law in the United States on December 22,

2017 related to intercompany debt, and (iii) selling, general and administrative ("SG&A") expenses primarily due to additional SG&A from the Polyair and Maiweave acquisitions.

IPG Net Earnings for the first nine months of 2019 decreased to \$29.6 million (\$0.50 basic and diluted earnings per share) from \$36.1 million for the same period in 2018 (\$0.61 basic and diluted earnings per share). The decrease was primarily due to increases in (i) interest expense, (ii) SG&A, and (iii) income tax expense mainly due to the Proposed Tax Assessment<sup>(4)</sup>. These unfavourable impacts were partially offset by an increase in gross profit.

Adjusted net earnings for the third quarter of 2019 decreased to \$17.4 million (\$0.30 basic and diluted adjusted earnings per share) from \$19.0 million (\$0.32 basic and diluted adjusted earnings per share) for the same period in 2018. Adjusted net earnings for the first nine months of 2019 decreased to \$44.3 million (\$0.75 basic and diluted adjusted earnings per share) from \$48.0 million (\$0.82 basic adjusted earnings per share and \$0.81 diluted adjusted earnings per share) for the same period in 2018. The decrease in both periods was primarily due to increases in (i) finance costs mainly due to interest expense, (ii) income tax expense and (iii) SG&A, partially offset by organic growth in gross profit as well as adjusted net earnings contributed by the Polyair and Maiweave acquisitions.

Adjusted EBITDA increased to \$46.0 million for the third quarter of 2019 from \$37.6 million for the third quarter of 2018 primarily due to (i) organic growth in gross profit, (ii) adjusted EBITDA contributed by the Polyair and Maiweave acquisitions and (iii) the favourable impact of operating lease payments totalling \$1.8 million that were capitalized in the third quarter of 2019 in accordance with new lease accounting guidance implemented on January 1, 2019.

Adjusted EBITDA increased to \$128.5 million for the first nine months of 2019 from \$102.4 million for the same period in 2018. The increase was primarily due to (i) adjusted EBITDA contributed by the Polyair and Maiweave acquisitions, (ii) organic growth in gross profit, and (iii) the favourable impact of operating lease payments totalling \$5.3 million that were capitalized in the first nine months of 2019 in accordance with new lease accounting guidance implemented on January 1, 2019.

- (1) "Polyair Acquisition" refers to the acquisition by the Company of 100% of the outstanding equity value in Polyair Inter Pack, Inc. ("Polyair") on August 3, 2018.
- (2) "Maiweave Acquisition" refers to the acquisition by the Company of substantially all of the operating assets of Maiweave LLC ("Maiweave") on December 17, 2018.
- (3) "Senior Unsecured Notes" refers to the private placement of \$250.0 million in senior unsecured notes due October 15, 2026.
- (4) "Proposed Tax Assessment" refers to a proposed state income tax assessment and the related interest expense recognized in the second quarter of 2019 totalling \$2.3 million resulting from the denial of the utilization of certain net operating losses generated in tax years 2000-2006.

#### *Dividend Declaration*

On November 8, 2019, the Company declared a quarterly cash dividend of \$0.1475 per common share payable on December 30, 2019 to shareholders of record at the close of business on December 16, 2019.

#### **Outlook**

The Company has revised its expectations for revenue and adjusted EBITDA for the fiscal year as follows:

- Revenue in 2019 is now expected to be between \$1,150 and \$1,165 million, down from the original expectation of between \$1,180 and \$1,220 million. This is based on the current run rate as of September 30 and the remaining period to meet the original outlook given the current view of demand indicators in the market. This excludes the impact of any merger and acquisitions activity that takes place in 2019, and any significant fluctuations in selling prices caused by unforeseen variations in raw material prices.
- Adjusted EBITDA for 2019 is now expected to be between \$170 and \$174 million which is at the higher end of the original expectation of between \$164 and \$174 million. This estimate includes the expected impact of new accounting guidance for leases whereby 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 adjusted EBITDA, estimated to be between \$6 and \$7 million for the year ended December 31, 2019. For the year ended

December 31, 2018, rent expense included in adjusted EBITDA was \$4.6 million related to operating leases that were accounted for as right-of-use assets as of January 1, 2019.

The remaining expectations are unchanged from those set out in the Company's MD&A as of and for the year ended December 31, 2018 ("2018 MD&A"), except for an additional exclusion related to the Proposed Tax Assessment, and are as follows:

- Total capital expenditures for 2019 are expected to be between \$45 and \$55 million.
- Excluding the potential impact of changes in the mix of earnings between jurisdictions and the Proposed Tax Assessment, the Company expects a 25% to 30% effective tax rate for 2019 and cash taxes paid in 2019 to be approximately two-thirds of the income tax expense in 2019, primarily due to the elimination of certain tax benefits as a result of the TCJA related to intercompany debt.

## Results of Operations

### Revenue

Revenue for the third quarter of 2019 totalled \$293.6 million, a \$14.5 million or 5.2% increase from \$279.1 million for the third quarter of 2018, primarily due to:

- Additional revenue of \$19.1 million from the Polyair and Maiweave acquisitions

Partially offset by:

- A decrease in volume/mix of approximately 1.6% or \$4.5 million. The Company had unfavourable volume/mix in certain industrial tape and equipment products. This decline was partially offset by an increase in water activated tape and protective packaging.

Revenue for the first nine months of 2019 totalled \$867.0 million, a \$101.7 million or 13.3% increase from \$765.4 million for the same period in 2018, primarily due to:

- Additional revenue of \$100.4 million from the Polyair, Maiweave, and Airtrax<sup>(1)</sup> acquisitions;
- The impact of higher selling prices of approximately \$4.7 million primarily in certain tape products; and
- An increase in volume/mix of approximately 0.1% or \$0.7 million driven by growth in water activated tape and films which are each product categories directly related to the Company's recent strategic investments. This increase was partially offset by a decline in a retail tape product line, certain industrial tapes and equipment products.

Partially offset by:

- An unfavourable foreign exchange impact of \$4.2 million.

(1) "Airtrax Acquisition" 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.

### Gross Profit and Gross Margin

Gross profit totalled \$64.1 million for the third quarter of 2019, a \$6.7 million or 11.7% increase from \$57.3 million for the third quarter of 2018. Gross margin was 21.8% in the third quarter of 2019 and 20.5% in the third quarter of 2018.

- Gross profit increased primarily due to an increase in spread between selling prices and combined raw material and freight costs, and additional gross profit from the Polyair and Maiweave acquisitions. These favourable impacts were partially offset by an unfavourable product volume/mix.
- Gross margin increased primarily due to an increase in spread between selling prices and combined raw material and freight costs, partially offset by the dilutive impact of the Maiweave acquisition.

Gross profit totalled \$186.6 million for the first nine months of 2019, a \$24.3 million or 15.0% increase from \$162.2 million for the same period in 2018. Gross margin was 21.5% in the first nine months of 2019 and 21.2% in the same period in 2018.

- Gross profit increased primarily due to an increase in spread between selling prices and combined raw material and freight costs, and additional gross profit from the Polyair, Maiweave, and Airtrax acquisitions. These favourable impacts were partially offset by an unfavourable product volume/mix.

- Gross margin increased primarily due to an increase in spread between selling prices and combined raw material and freight costs, partially offset by the dilutive impact of the Polyair and Maiweave acquisitions.

### Selling, General and Administrative Expenses

SG&A for the third quarter of 2019 totalled \$35.0 million, a \$0.8 million or 2.3% increase from \$34.2 million for the third quarter of 2018 primarily driven by additional SG&A from the Polyair and Maiweave acquisitions as well as employee-related costs to support growth initiatives, partially offset by a decrease in share-based compensation driven primarily by a decrease in the fair value of cash-settled awards of \$1.4 million.

SG&A for the first nine months of 2019 totalled \$104.1 million, a \$13.1 million or 14.4% increase from \$91.0 million in the same period in 2018 primarily due to additional SG&A from the Polyair and Maiweave acquisitions and an increase in variable compensation.

The following table presents the 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"), included in SG&A:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
M&A Costs included in SG&A	2.9	2.6	5.2	5.4

### Manufacturing Facility Closures, Restructuring and Other Related Charges

Manufacturing facility closures, restructuring and other related charges for the third quarter of 2019 totalled \$1.6 million, a \$4.2 million decrease from \$5.8 million for the third quarter of 2018.

Manufacturing facility closures, restructuring and other related charges for the first nine months of 2019 totalled \$5.8 million, a \$0.3 million increase from \$5.5 million in the same period in 2018.

As part of a plan to realize operational synergies gained from the acquisition of Canadian Technical Tape Ltd. ("Cantech"), which was completed in July 2017 ("Cantech Acquisition"), the Company closed its Johnson City, Tennessee manufacturing facility at the end of 2018 and subsequently sold the facility in June 2019. In April of 2019, the Company announced that it will close its Montreal, Quebec manufacturing facility and by August 2019 had transferred substantially all manufacturing operations to its other existing manufacturing facilities. The Company expects to complete the closure of the manufacturing facility by the end of 2019. The Company estimates the closure of these Cantech facilities will generate a combined annual cost savings of between \$2.5 and \$3.5 million. These synergies are included in the estimate of total annual synergies the Company expects to gain from the Cantech Acquisition of between \$3.5 and \$6.0 million by the end of 2019.

The charges incurred in the three months ended September 30, 2019 were primarily related to the closure of the Montreal, Quebec manufacturing facility. The charges incurred were comprised of cash costs of \$1.1 million mainly related to restoration, ongoing idle facility and other labor costs, and non-cash impairments of \$0.5 million for inventory and property, plant and equipment.

The charges incurred in the nine months ended September 30, 2019 were comprised of cash costs of \$3.3 million and non-cash impairments of \$2.5 million for inventory and property, plant and equipment related to the closures of both the Montreal, Quebec and Johnson City, Tennessee manufacturing facilities. Cash costs incurred were mainly for termination benefits, restoration and ongoing idle facility costs related to the closure of the Montreal, Quebec manufacturing facility as well as the post-closure activities of the Johnson City, Tennessee manufacturing facility.

The charges incurred in the three and nine months ended September 30, 2018 were primarily due to non-cash impairments of property, plant and equipment and inventory related to the closure of the Johnson City, Tennessee manufacturing facility.

## Finance Costs

Finance costs for the third quarter of 2019 totalled \$7.3 million, a \$4.8 million increase from \$2.5 million in the third quarter of 2018, primarily due to an increase in interest expense and foreign exchange losses in the third quarter of 2019 compared to foreign exchange gains in the same time period in 2018. The increase in interest expense was primarily due to (i) higher average cost of debt as a result of the Company's \$250 million Senior Unsecured Notes issued in October 2018 bearing interest at a fixed rate of 7.00% per annum, (ii) higher average debt outstanding due to additional borrowings to fund business acquisitions and strategic capital projects, and (iii) incremental interest due to capitalizing operating leases in accordance with new lease accounting guidance implemented on January 1, 2019.

Finance costs for the first nine months of 2019 totalled \$23.7 million, a \$12.4 million increase from \$11.3 million in the same period in 2018, primarily due to an increase in interest expense, partially offset by the non-recurrence of debt issue costs written off in the second quarter of 2018 as a result of refinancing and replacing one of the Company's debt facilities, as discussed in the section entitled "Liquidity and Borrowings" in the Company's 2018 MD&A. The increase in interest expense was primarily due to (i) higher average cost of debt as a result of the Senior Unsecured Notes bearing interest at a fixed rate of 7.00% per annum, (ii) higher average debt outstanding due to additional borrowings to fund business acquisitions and strategic capital projects, (iii) incremental interest due to capitalizing operating leases in accordance with new lease accounting guidance implemented on January 1, 2019 and (iv) interest expense resulting from the Proposed Tax Assessment.

## 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		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Income tax expense	4.3	2.2	13.9	9.0
Earnings before income tax expense	16.8	12.0	43.4	45.1
Effective tax rate	25.3%	18.8%	31.9%	20.0%

The increase in the effective tax rate in the three months ended September 30, 2019 as compared to the same period in 2018 was primarily due to the elimination of certain tax benefits as a result of the TCJA related to intercompany debt and the non-recurrence of a net federal tax benefit associated with a discretionary pension contribution made in the third quarter of 2018.

The increase in the effective tax rate in the nine months ended September 30, 2019 as compared to the same period in 2018 was primarily due to the Proposed Tax Assessment and the elimination of certain tax benefits as a result of the TCJA related to intercompany debt. Excluding the Proposed Tax Assessment, the effective tax rate for the nine months ended September 30, 2019 would have been 27.4%.

## IPG Net Earnings

IPG Net Earnings for the third quarter of 2019 totalled \$12.5 million, a \$2.9 million increase from \$9.7 million for the third quarter of 2018. The increase was primarily due to an increase in gross profit and a decrease in manufacturing facility closures, restructuring and other related charges resulting mainly from the non-recurrence of a one-time charge for non-cash impairments of property, plant and equipment and inventory related to the closure of the Johnson City, Tennessee manufacturing facility in the third quarter of 2018. These favourable impacts were partially offset by increases in (i) interest expense mainly due to a higher average cost of debt, including the impact of the Senior Unsecured Notes, (ii) income tax expense mainly due to the elimination of certain tax benefits as a result of the TCJA related to intercompany debt, and (iii) SG&A primarily due to additional SG&A from the Polyair and Maiweave acquisitions.



IPG Net Earnings for the first nine months of 2019 totalled \$29.6 million, a \$6.5 million decrease from \$36.1 million for the same period in 2018. The decrease was primarily due to increases in (i) interest expense, (ii) SG&A, and (iii) income tax expense mainly due to the Proposed Tax Assessment. These unfavourable impacts were partially offset by an increase in gross profit.

## **Non-GAAP Financial Measures**

This MD&A contains certain non-GAAP financial measures as defined under applicable securities legislation, including adjusted net earnings (loss), adjusted earnings (loss) per share, EBITDA, adjusted EBITDA, and free cash flows (please see the "Adjusted Net Earnings (Loss)" section below for a description and reconciliation of adjusted net earnings (loss) and adjusted earnings (loss) per share, "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.

### **Adjusted Net Earnings (Loss) and Adjusted Earnings (Loss) Per Share**

A reconciliation of the Company's adjusted net earnings (loss), a non-GAAP financial measure, to IPG Net Earnings, the most directly comparable GAAP financial measure, is set out in the adjusted net earnings (loss) reconciliation table below. Adjusted net earnings (loss) should not be construed as IPG Net Earnings as determined by GAAP. The Company defines adjusted net earnings (loss) as IPG Net Earnings 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) (gain) loss on disposal of property, plant, and equipment; (viii) other discrete items as shown in the table below; and (ix) the income tax effect of these items. The term "adjusted net earnings (loss)" does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. Adjusted net earnings (loss) is not a measurement of financial performance under GAAP and should not be considered as an alternative to IPG Net Earnings as an indicator of the Company's operating performance or any other measures of performance derived in accordance with GAAP. The Company has included this non-GAAP financial measure because it believes that it permits investors to make a more meaningful comparison of the Company's performance between periods presented by excluding certain non-operating expenses, non-cash expenses and, where indicated, non-recurring expenses. In addition, adjusted net earnings (loss) is used by management in evaluating the Company's performance because it believes it provides an indicator of the Company's performance that is often more meaningful than GAAP financial measures for the reasons stated in the previous sentence.

Adjusted earnings (loss) per share is also presented in the following table and is a non-GAAP financial measure. Adjusted earnings (loss) per share should not be construed as IPG Net Earnings per share as determined by GAAP. The Company defines adjusted earnings (loss) per share as adjusted net earnings (loss) divided by the weighted average number of common shares outstanding, both basic and diluted. The term "adjusted earnings (loss) per share" does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. Adjusted earnings (loss) per share is not a measurement of financial performance under GAAP and should not be considered as an alternative to IPG Net Earnings per share as an indicator of the Company's operating performance or any other measures of performance derived in accordance with GAAP. The Company has included this non-GAAP financial measure because it believes that it permits investors to make a more meaningful comparison of the Company's performance between periods presented by excluding certain non-operating expenses, non-cash expenses and, where indicated, non-recurring expenses. In addition, adjusted earnings (loss) per share is used by management in evaluating the Company's performance because it believes it provides an indicator of the Company's performance that is often more meaningful than GAAP financial measures for the reasons stated in the previous sentence.

## Adjusted Net Earnings Reconciliation to IPG Net Earnings

(In millions of US dollars, except per share amounts and share numbers)

(Unaudited)

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
IPG Net Earnings	12.5	9.7	29.6	36.1
Manufacturing facility closures, restructuring and other related charges	1.6	5.8	5.8	5.5
M&A Costs	3.9	3.8	7.9	7.0
Share-based compensation expense	0.5	1.8	2.0	1.5
Impairment of long-lived assets and other assets	0.1	—	0.2	0.0
Loss on disposal of property, plant and equipment	0.1	0.0	0.2	0.2
Other item: special income tax events <sup>(1)</sup>	—	—	2.3	—
Income tax effect of these items	(1.3)	(2.1)	(3.8)	(2.4)
Adjusted net earnings	17.4	19.0	44.3	48.0
IPG Net Earnings per share				
Basic	0.21	0.16	0.50	0.61
Diluted	0.21	0.16	0.50	0.61
Adjusted earnings per share				
Basic	0.30	0.32	0.75	0.82
Diluted	0.30	0.32	0.75	0.81
Weighted average number of common shares outstanding				
Basic	58,877,185	58,817,410	58,764,165	58,810,166
Diluted	59,058,758	59,081,293	58,954,685	59,111,165

<sup>(1)</sup> Represents the Proposed Tax Assessment.

Adjusted net earnings totalled \$17.4 million for the third quarter of 2019, a \$1.6 million or 8.2% decrease from \$19.0 million for the third quarter of 2018. Adjusted net earnings totalled \$44.3 million for the first nine months of 2019, a \$3.7 million or 7.8% decrease from \$48.0 million for the same period in 2018. The decrease in both periods was primarily due to increases in (i) finance costs mainly due to interest expense, (ii) income tax expense and (iii) SG&A, partially offset by organic growth in gross profit as well as adjusted net earnings contributed by the Polyair and Maiweave acquisitions.

## 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) (gain) loss 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, where indicated, 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		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Net earnings	12.5	9.7	29.5	36.0
Interest and other finance costs	7.3	2.5	23.7	11.3
Income tax expense	4.3	2.2	13.9	9.0
Depreciation and amortization	15.7	11.7	45.2	31.8
<b>EBITDA</b>	<b>39.8</b>	<b>26.1</b>	<b>112.3</b>	<b>88.1</b>
Manufacturing facility closures, restructuring and other related charges	1.6	5.8	5.8	5.5
M&A Costs	3.9	3.8	7.9	7.0
Share-based compensation expense	0.5	1.8	2.0	1.5
Impairment of long-lived assets and other assets	0.1	—	0.2	0.0
Loss on disposal of property, plant and equipment	0.1	0.0	0.2	0.2
<b>Adjusted EBITDA</b>	<b>46.0</b>	<b>37.6</b>	<b>128.5</b>	<b>102.4</b>

Adjusted EBITDA totalled \$46.0 million for the third quarter of 2019, an \$8.4 million or 22.4% increase from \$37.6 million for the third quarter of 2018. The increase was primarily due to (i) organic growth in gross profit, (ii) adjusted EBITDA contributed by the Polyair and Maiweave acquisitions and (iii) the favourable impact of operating lease payments totalling \$1.8 million that were capitalized in the third quarter of 2019 in accordance with new lease accounting guidance implemented on January 1, 2019.

Adjusted EBITDA totalled \$128.5 million for the first nine months of 2019, a \$26.1 million or 25.4% increase from \$102.4 million for the same period in 2018. The increase was primarily due to (i) adjusted EBITDA contributed by the Polyair and Maiweave acquisitions, (ii) organic growth in gross profit, and (iii) the favourable impact of operating lease payments totalling \$5.3 million that were capitalized in the first nine months of 2019 in accordance with new lease accounting guidance implemented on January 1, 2019.

### Off-Balance Sheet Arrangements

There have been no material changes with respect to off-balance sheet arrangements since December 31, 2018 outside of the Company's ordinary course of business. Reference is made to the section entitled "Off-Balance Sheet Arrangements" in the Company's 2018 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 a higher level of sales invoiced toward the end of the quarter and inventory builds in anticipation of higher future sales, both of which typically occur in the first, second and third quarters and unwind in the fourth quarter. 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 72 for the third quarter of 2019 from 65 for the third quarter of 2018. Days Inventory increased to 70 for the nine months ended September 30, 2019 from 66 for the same period in 2018. Inventories increased \$8.1 million to \$198.7 million as of September 30, 2019 from \$190.7 million as of December 31, 2018, primarily due to planned inventory builds related to the ramp up of the woven products greenfield manufacturing facility in India, seasonal inventory builds and an increase in raw material purchases, including pre-buys of certain raw materials to manage price increases.

The calculations are shown in the following table:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Cost of sales <sup>(1)</sup>	\$ 229.5	\$ 221.7	\$ 680.5	\$ 603.1
Days in period	92	92	273	273
Cost of sales per day <sup>(1)</sup>	\$ 2.5	\$ 2.4	\$ 2.5	\$ 2.2
Average inventory <sup>(1)</sup>	\$ 178.9	\$ 156.3	\$ 174.2	\$ 144.9
Days inventory	72	65	70	66

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

For purposes of this calculation inventory excludes items considered parts and supplies

<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 46 in the third quarters of 2019 and 2018. DSO decreased to 46 for the nine months ended September 30, 2019 from 49 for the same period in 2018. Trade receivables increased \$17.0 million to \$146.3 million as of September 30, 2019 from \$129.3 million as of December 31, 2018, primarily due to the timing and amount of revenue invoiced later in the third quarter of 2019 as compared to later in the fourth quarter of 2018.

The calculations are shown in the following tables:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenue <sup>(1)</sup>	\$ 293.6	\$ 279.1	\$ 867.0	\$ 765.4
Days in period	92	92	273	273
Revenue per day <sup>(1)</sup>	\$ 3.2	\$ 3.0	\$ 3.2	\$ 2.8
Trade receivables <sup>(1)</sup>	\$ 146.3	\$ 138.2	\$ 146.3	\$ 138.2
DSO	46	46	46	49

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 \$19.3 million to \$135.5 million as of September 30, 2019 from \$154.8 million as of December 31, 2018, primarily due to the timing of payments for inventory as well as SG&A.

## Liquidity and Borrowings

The Company's total outstanding borrowings increased \$58.9 million to \$566.0 million (\$559.6 million net of unamortized debt issue costs of \$6.5 million) as of September 30, 2019 from \$507.1 million (\$500.0 million net of unamortized debt issue costs of \$7.1 million) as of December 31, 2018. The increase is primarily due to the capitalization of operating leases in accordance with new lease accounting guidance implemented on January 1, 2019 and additional borrowings to support the Company's seasonal working capital increase. On September 30, 2019, total borrowings included lease liabilities totalling \$45.8 million compared to \$5.7 million on December 31, 2018.

### Senior Unsecured Notes

The Company's \$250.0 million Senior Unsecured Notes, issued in October 2018, are due October 15, 2026 and bear interest at a fixed rate of 7.00% per annum, payable semi-annually in cash in arrears on April 15 and October 15 of each year, beginning on April 15, 2019. As of September 30, 2019, the Senior Unsecured Notes outstanding balance amounted to \$250.0 million (\$245.6 million net of \$4.4 million in unamortized debt issue costs).

### 2018 Credit Facility

Pursuant to a credit agreement executed in June 2018 with a syndicated lending group, and a subsequent amendment executed in July 2019, the Company has a five-year \$600.0 million credit facility ("2018 Credit Facility") comprised of a \$400.0 million revolving credit facility ("2018 Revolving Credit Facility") and a \$200.0 million term loan ("2018 Term Loan"). The 2018 Term Loan amortizes \$65.0 million until March 2023 (\$5.0 million in 2018, \$10.0 million in 2019, \$12.5 million in 2020, \$15.0 million in 2021, \$17.5 million in 2022, and \$5.0 million in 2023), and the remaining balance of the 2018 Credit Facility is due upon maturity in June 2023. 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) if needed. The 2018 Credit Facility 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 (175 basis points as of September 30, 2019 and 250 basis points as of December 31, 2018).

The 2018 Credit Facility has two financial covenants, a consolidated secured net leverage ratio and a consolidated interest coverage ratio. In July 2019, the Company and its syndicated lending group amended the 2018 Revolving Credit Facility to, among other things, revise the two financial covenant thresholds to account for the associated impacts of new lease accounting guidance implemented on January 1, 2019 requiring operating leases to be accounted for as debt (with corresponding interest payments). The amendment provides that the consolidated secured net leverage ratio must not be more than 3.70 to 1.00 (previously 3.50 to 1.00), with an allowable temporary increase to 4.20 to 1.00 (previously 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. The amendment also provides that the consolidated interest coverage ratio must not be less than 2.75 to 1.00 (previously 3.00 to 1.00). The Company was in compliance with the consolidated secured net leverage ratio and consolidated interest coverage ratio, which were 1.67 and 5.53, respectively, as of September 30, 2019. 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 and for the nine months ended September 30, 2019.

As of September 30, 2019, the 2018 Term Loan's outstanding principal balance amounted to \$187.5 million and the 2018 Revolving Credit Facility's outstanding principal balance amounted to \$53.2 million, for a total gross outstanding principal balance under the 2018 Credit Facility of \$240.7 million (net outstanding principal balance of \$238.7 million, net of unamortized debt issue costs of \$2.0 million). Outstanding letters of credit totalled \$3.4 million resulting in total utilization under the 2018 Credit Facility of \$244.0 million. Accordingly, unused availability under the 2018 Credit Facility as of September 30, 2019 amounted to \$343.5 million. The Company's capacity to borrow available funds under the 2018 Credit Facility may be limited because of the secured net leverage ratio covenant and other restrictions as defined in the Company's credit agreement.

#### *Other Borrowings*

As of September 30, 2019, the Company's credit facilities denominated in Indian Rupee ("INR") had a gross outstanding balance of INR 1,797.9 million (\$25.4 million) and net outstanding balance of INR 1,794 million (\$25.4 million), net of unamortized debt issue costs of INR 3.7 million (\$0.1 million). Including INR 9.0 million (\$0.1 million) in outstanding letters of credit, total utilization under these credit facilities amounted to INR 1,806.9 million (\$25.6 million). Accordingly, unused availability under these credit facilities as of September 30, 2019 amounted to INR 436.6 million (\$6.2 million). All availability was uncommitted.

#### *Liquidity*

The Company relies upon cash flows from operations and funds available under its credit facilities 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 maintain a sufficient amount of cash and 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 borrowings may be used, as needed, to fund more significant strategic initiatives.

As of September 30, 2019, the Company had \$13.2 million of cash and \$349.7 million of loan availability (comprised of committed funding of \$343.5 million, subject to the secured net leverage ratio covenant defined in the Company's credit agreement with its syndicated lending group, and uncommitted funding of \$6.2 million), yielding total cash and loan availability of \$362.9 million compared to total cash and loan availability of \$393.9 million as of December 31, 2018.

#### **Cash Flows**

The Company's net working capital on the balance sheet increased during 2018 due to the effects of business acquisitions. However, working capital amounts acquired are not included in cash flows from operating activities under IFRS. As such, the discussions below regarding 2018 working capital items appropriately exclude this effect.

Cash flows from operating activities increased in the third quarter of 2019 by \$35.3 million to \$48.4 million from \$13.1 million in the third quarter of 2018 primarily due to a smaller increase in accounts receivable primarily due to the timing of revenue

invoiced in the third quarter of 2019 as compared to the third quarter of 2018, the non-recurrence of a discretionary pension contribution in the third quarter of 2018, and an increase in gross profit.

Cash flows from operating activities increased in the first nine months of 2019 by \$41.1 million to \$61.7 million from \$20.6 million in the same period in 2018 primarily due to an increase in gross profit, a decrease in cash used for working capital items, and the non-recurrence of a discretionary pension contribution in the third quarter of 2018, partially offset by an increase in income taxes paid as a result of the non-recurrence of a US tax refund received in 2018.

Changes in working capital items for the first nine months of 2019 compared to the same period in 2018 included a smaller increase in inventory, a decrease in other current assets, and a greater decrease in accounts payable. Additional discussion on working capital changes is provided in the section entitled "Working Capital" above.

Cash flows used for investing activities decreased in the third quarter of 2019 by \$158.1 million to \$10.0 million from \$168.1 million in the third quarter of 2018. Cash flows used for investing activities decreased in the first nine months of 2019 by \$164.1 million to \$39.1 million from \$203.2 million in the same period in 2018. The change in both periods was primarily due the non-recurrence of the Polyair Acquisition in August 2018 and a decrease in capital expenditures to support the initiatives discussed in the section entitled "Capital Resources".

Cash flows from financing activities decreased in the third quarter of 2019 by \$190.2 million to an outflow of \$36.5 million from an inflow of \$153.7 million in the third quarter of 2018 primarily due to the greater net borrowing in 2018 to fund the Polyair Acquisition, strategic capital projects and other working capital needs.

Cash flows from financing activities decreased in the first nine months of 2019 by \$216.0 million to an outflow of \$27.9 million from an inflow of \$188.0 million in the same period in 2018 primarily due to the greater net borrowing in 2018 to fund the Polyair Acquisition, strategic capital projects and other working capital needs, as well as an increase in interest paid which was largely the result of the semi-annual recurring interest payment on the Senior Unsecured Notes in April of 2019. Additional discussion on borrowings is provided in the section entitled "Liquidity and Borrowings".

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. The Company experiences normal business seasonality that typically results in cash flows from operating activities and free cash flows that are proportionately higher in the second, third and fourth quarters of the year relative to the first quarter in line with required working capital investments discussed in the section entitled "Working Capital".

Free cash flows, defined by the Company as cash flows from operating activities less purchases of property, plant and equipment, increased in the third quarter of 2019 by \$48.8 million to \$39.0 million from negative \$9.8 million in the third quarter of 2018 primarily due to an increase in cash flows from operations and a decrease in capital expenditures. Included in free cash flows in the third quarter of 2019 was the favourable impact of operating lease payments totalling \$1.8 million that are now presented in cash flows from financing activities in accordance with new lease accounting guidance implemented on January 1, 2019.

Free cash flows increased in the first nine months of 2019 by \$60.1 million to \$23.1 million from negative \$37.0 million in the same period in 2018 primarily due to an increase in cash flows from operating activities and decrease in capital expenditures. Included in free cash flows in the first nine months of 2019 was the favourable impact of operating lease payments totalling \$5.3 million that are now presented in cash flows from financing activities in accordance with new lease accounting guidance implemented on January 1, 2019.

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		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Cash flows from operating activities	48.4	13.1	61.7	20.6
Less purchases of property, plant and equipment	(9.3)	(22.9)	(38.6)	(57.6)
Free cash flows	39.0	(9.8)	23.1	(37.0)

### Capital Resources

Capital expenditures totalled \$9.3 million and \$38.6 million in the three and nine months ended September 30, 2019, and were funded by borrowings and cash flows from operations. The Company had commitments to suppliers to purchase machinery and equipment totalling approximately \$8.4 million as of September 30, 2019 that are expected to be paid out in the next twelve months and will be funded by borrowings and cash flows from operations. These capital expenditures and commitments are primarily to support the end stages of the greenfield manufacturing facilities in India and other smaller scale strategic and growth initiatives, including projects to support the integration of acquired operations. As expected, with the completion of larger-scale greenfield projects, capital expenditures are returning to what the Company considers to be a more normal annual range covering maintenance needs and initiatives supporting the efficiency and effectiveness of operations.

#### *Indian Greenfield Manufacturing Facilities*

The Company has been ramping up its woven products production in the Capstone greenfield manufacturing facility in Karoli, India and transiting product to our North American manufacturing facilities for use in production and order fulfillment. As expected, given the extended supply chain, the Company did not start to realize the associated contribution to results until the third quarter of 2019. The benefits realized in the third quarter were consistent with the Company's expectations and management remains confident it will achieve its hurdle rate of an after-tax internal rate of return of 15%. Total project expenditures since inception totalled approximately \$28.7 million at September 30, 2019.

The Company has completed the commissioning of production processes associated with the greenfield carton sealing tape manufacturing facility in Dahej, India. Total project expenditures since inception totalled approximately \$21.4 million as of September 30, 2019. Subsequent production ramp up to optimal operating efficiency and order book generation is expected to be slower than initially anticipated and as a result, the Company does not expect sales from this manufacturing facility to make a significant contribution to results in 2019 or in 2020. Most of the production volume of hot melt carton sealing tape expected to be produced in Dahej for the North American market is currently being produced more profitably in the Danville, Virginia manufacturing facility. The Company does not expect to achieve an after-tax internal rate of return greater than 15% on this investment based on the original plan for the facility but continues to assess plans to optimize this asset.

### Contractual Obligations

There have been no material changes with respect to contractual obligations since December 31, 2018 outside of the Company's ordinary course of business. Reference is made to the section entitled "Contractual Obligations" in the Company's 2018 MD&A.

### Capital Stock and Dividends

As of September 30, 2019, there were 58,877,185 common shares of the Company outstanding.

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



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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Equity-settled</b>				
Stock options granted <sup>(1)</sup>	—	—	<b>392,986</b>	242,918
Stock options exercised	—	—	<b>(226,875)</b>	(17,500)
Stock options cancelled/forfeited	<b>(22,503)</b>	—	<b>(32,503)</b>	—
<b>Cash-settled</b>				
DSUs granted	<b>2,667</b>	—	63,431	43,203
DSUs settled	—	—	—	(37,668)
PSUs granted	—	—	<b>291,905</b>	284,571
PSUs forfeited	<b>(14,070)</b>	(14,540)	<b>(14,070)</b>	(16,053)
PSUs cancelled by performance factor <sup>(2)</sup>	—	—	<b>(371,158)</b>	(2,125)
PSUs settled <sup>(2)</sup>	—	—	—	(335,465)
RSUs granted	—	—	<b>120,197</b>	113,047
RSUs forfeited	<b>(5,399)</b>	(1,228)	<b>(5,399)</b>	(1,228)
SARs exercised	—	—	—	147,500
Cash settlements (in millions of US dollars)	\$ —	\$ —	\$ —	\$ 7.9

<sup>(1)</sup> The Company's prior Executive Stock Option Plan ("ESOP"), which was adopted in 1992 and last ratified on June 4, 2015, elapsed on June 4, 2018. No further grants of stock options were made under the ESOP after June 4, 2018. On March 12, 2019, the Board of Directors adopted a new Executive Stock Option Plan ("2019 ESOP") and on June 6, 2019, shareholders approved the plan at the Company's Annual Meeting of Shareholders.

<sup>(2)</sup> The table below provides further information regarding the PSUs settled and adjusted by performance factor included in the table above. The number of "Target Shares" reflects 100% of the PSUs granted and the number of PSUs settled reflects the performance adjustments to the Target Shares:

Grant Date	Date Settled	Target Shares	Performance	PSUs settled
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
March 21, 2016	March 21, 2019	371,158	—%	—

On August 7, 2019, the Board of Directors amended the terms of the PSU awards granted in 2017 only to modify the performance adjustment factor specific to the Total Shareholder Return ("TSR") ranking relative to a specified peer group of companies over the measurement period. As amended, the TSR performance adjustment factor is determined by interpolating, on a straight-line basis, between 0% and 50% of target shares where the relative TSR ranking is between the 25th and 50th percentile and between 50% and 100% of target shares where the relative TSR ranking is between the 51st and 75th percentile. The amendment was intended to align the performance adjustment factors with market practice of interpolating as well as the recent practice of the Company.

As of September 30, 2019, \$7.0 million was recorded in share-based compensation liabilities, current, and \$3.9 million was recorded in share-based compensation liabilities, non-current.

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Equity-settled	0.1	0.1	0.5	0.3
Cash-settled	0.3	1.7	1.5	1.2
<b>Total</b>	<b>0.5</b>	<b>1.8</b>	<b>2.0</b>	<b>1.5</b>

On August 7, 2019, the Board of Directors amended the Company's quarterly policy to increase the annualized dividend by 5.4% from \$0.56 to \$0.59 per common share. The Board's decision to increase the dividend was based on the Company's strong financial position and positive outlook. Accordingly, on September 30, 2019, the Company paid cash dividends of \$0.1475 per common share to shareholders of record at the close of business September 16, 2019 for an aggregate amount of \$8.7 million.

On November 8, 2019, the Company declared a quarterly cash dividend of \$0.1475 per common share payable on December 30, 2019 to shareholders of record at the close of business on December 16, 2019.

The dividends paid and payable in 2019 by the Company are "eligible dividends" as defined in subsection 89(1) of the *Income Tax Act* (Canada).

The Company renewed its normal course issuer bid ("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, 2019 and ending on July 22, 2020. As of November 8, 2019, no shares have been repurchased under the NCIB.

## Financial Risk, Objectives and Policies

### *Interest Rate Risk*

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.

The terms of the interest rate swap agreements are as follows as of September 30, 2019:

Effective Date	Maturity	Notional Amount \$	Settlement	Fixed interest rate paid %
<u>Qualifying cash flow hedges:</u>				
June 8, 2017	June 20, 2022	40.0	Monthly	1.7900
July 21, 2017	July 18, 2022	CDN\$36.0 <sup>(1)</sup>	Monthly	1.6825
August 20, 2018	August 18, 2023	60.0	Monthly	2.0450
<u>Non-qualifying cash flow hedges:</u>				
March 18, 2015	November 18, 2019	40.0	Monthly	1.6100

<sup>(1)</sup> The notional amount will decrease by 18.0 million Canadian dollars ("CDN") on the 18th of July 2021 and 2022.

### *Hedge of net investment in foreign operations*

A foreign currency exposure arises from Intertape Polymer Group Inc.'s net investment in its USD functional currency subsidiary, IPG (US) Holdings Inc. The risk arises from the fluctuations in the USD and Canadian dollar current exchange rate, which causes the amount of the net investment in IPG (US) Holdings Inc. to vary. The Company currently uses its Senior Unsecured Notes to hedge the Company's exposure to the USD foreign exchange risk on this investment.

The changes in value related to the Senior Unsecured Notes designated as a hedging instrument, in the hedge of a net investment, are as follows for the three and nine months ended September 30, 2019 (nil for the three and nine months ended September 30, 2018):

	Three months ended September 30,	Nine months ended September 30,
	2019	2019
	\$	\$
(Losses)/gains from change in value of hedging instrument used for calculating hedge ineffectiveness	(2.3)	7.5
(Losses)/gains from hedging instrument recognized in other comprehensive income	(2.0)	6.6
(Losses)/gains from hedge ineffectiveness recognized in earnings in finance costs in other expense, net	(0.3)	0.9
Foreign exchange gains recognized in cumulative translation adjustments in the statement of changes in equity	0.0	0.0

The change in value used for calculating hedge ineffectiveness related to the net investment in IPG (US) Holdings, Inc., designated as the hedged item in the hedge of a net investment is an increase of \$2.0 million and a decrease of \$6.6 million for the three and nine months ended September 30, 2019, respectively (nil for the three and nine months ended September 30, 2018).

The cumulative loss included in the foreign currency translation reserve recognized in other comprehensive income related to the net investment in IPG (US) Holdings, Inc., designated as the hedged item in the net investment hedge, is \$2.8 million for the nine months ended September 30, 2019 (\$9.4 million as of December 31, 2018).

## 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 September 30, 2019.

## 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, (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 and (iii) the measurement of lease liabilities under IFRS 16 - *Leases*, discussed below, which requires judgment as to the certainty of renewal options to be exercised and the discount rates applied. The Financial Statements should be read in conjunction with the Company's 2018 annual audited consolidated financial statements.

## **New Standards adopted as of January 1, 2019**

IFRS 16 - *Leases* ("IFRS 16"), which replaced IAS 17 - *Leases* along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'), introduced 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 became effective for annual reporting periods beginning on or after January 1, 2019. The new standard has been applied using the modified retrospective approach and as a result, prior periods have not been restated. The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease and the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before January 1, 2019 ("the date of initial application"). For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application. The Company has applied recognition exemptions across its complete portfolio of leased assets for short-term leases and leases of low value items. Furthermore, the Company has used certain relevant practical expedients available under the modified retrospective approach. Specifically, these include (i) applying a single discount rate to a portfolio of leases with reasonably similar characteristics, (ii) relying on the assessment of whether leases are onerous applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review, (iii) excluding leases for which the lease term ends within 12 months of the date of initial application, (iv) excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application, and (v) using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease. The Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of initial application.

The adoption of this new guidance resulted in changes to the balance sheet as of January 1, 2019, including (i) recognition of \$31.1 million in right-of-use assets included in property, plant and equipment, (ii) the recognition of \$31.5 million in lease liabilities included in borrowings, current and non-current, (iii) decrease of \$0.1 million in accounts payable and accrued liabilities and (iv) decrease of \$0.3 million in other liabilities.

### Other pronouncements and amendments

In the current year, the Company has applied a number of other amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after January 1, 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

## **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.

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 the *Conceptual Framework* on the Company's financial statements.

On September 26, 2019, the IASB published Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) in response to the ongoing reform of interest rate benchmarks around the world. The objective of the amendments is to provide temporary exceptions from applying specific hedge accounting requirements during the period of uncertainty arising from the reform. The amendments are effective on January 1, 2020. Management is currently assessing but has not yet determined the impact 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. During the three and nine months ended September 30, 2019 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. The CEO and CFO have concluded that the Company's internal control over financial reporting as of September 30, 2019 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 2018, 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 Company’s closure of its Montreal, Quebec manufacturing facility and the related cost savings, the Company’s cost synergies from the Cantech Acquisition, the Company’s production at its greenfield manufacturing facilities and the associated contributions and expected after-tax internal rate of return, the impacts of new accounting standards, including the expected impact of new accounting guidance for leases, 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; costs associated with the impact of climate change, including weather related events and environmental matters; the anticipated benefits from the Company’s acquisitions and partnerships; the expected financial performance and benefits, including annual cost savings and annual synergies, of the acquisitions including the Cantech, Polyair, Maiweave and Airtrax acquisitions; 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; anticipated changes in the tax treatment of intercompany debt; 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, 2018 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**  
**September 30, 2019**

Unaudited Interim Condensed Consolidated Financial Statements

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

Periods ended September 30,

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

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenue	<b>293,598</b>	279,062	<b>867,030</b>	765,364
Cost of sales	<b>229,535</b>	221,719	<b>680,477</b>	603,120
Gross profit	<b>64,063</b>	57,343	<b>186,553</b>	162,244
Selling, general and administrative expenses	<b>35,025</b>	34,230	<b>104,141</b>	91,006
Research expenses	<b>3,326</b>	2,926	<b>9,518</b>	9,381
	<b>38,351</b>	37,156	<b>113,659</b>	100,387
Operating profit before manufacturing facility closures, restructuring and other related charges	<b>25,712</b>	20,187	<b>72,894</b>	61,857
Manufacturing facility closures, restructuring and other related charges (Note 4)	<b>1,614</b>	5,777	<b>5,793</b>	5,476
Operating profit	<b>24,098</b>	14,410	<b>67,101</b>	56,381
Finance costs (income) (Note 3)				
Interest	<b>7,764</b>	3,952	<b>24,022</b>	10,359
Other (income) expense, net	<b>(459)</b>	(1,497)	<b>(316)</b>	957
	<b>7,305</b>	2,455	<b>23,706</b>	11,316
Earnings before income tax expense	<b>16,793</b>	11,955	<b>43,395</b>	45,065
Income tax expense (benefit) (Note 5)				
Current	<b>6,584</b>	(496)	<b>13,736</b>	1,257
Deferred	<b>(2,332)</b>	2,742	<b>125</b>	7,775
	<b>4,252</b>	2,246	<b>13,861</b>	9,032
Net earnings	<b>12,541</b>	9,709	<b>29,534</b>	36,033
Net earnings (loss) attributable to:				
Company shareholders	<b>12,528</b>	9,663	<b>29,584</b>	36,120
Non-controlling interests	<b>13</b>	46	<b>(50)</b>	(87)
	<b>12,541</b>	9,709	<b>29,534</b>	36,033
Earnings per share attributable to Company shareholders (Note 6)				
Basic	<b>0.21</b>	0.16	<b>0.50</b>	0.61
Diluted	<b>0.21</b>	0.16	<b>0.50</b>	0.61

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 September 30,  
(In thousands of US dollars)  
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Net earnings	<b>12,541</b>	9,709	<b>29,534</b>	36,033
Other comprehensive income (loss)				
Items that will be subsequently reclassified to net earnings:				
Change in fair value of interest rate swap agreements designated as cash flow hedges <sup>(1)</sup> (Note 9)	<b>(480)</b>	1,071	<b>(3,641)</b>	3,318
Reclassification adjustments for amounts recognized in earnings related to interest rate swap agreements (Note 9)	<b>(85)</b>	(190)	<b>(256)</b>	(190)
Change in cumulative translation adjustments	<b>(2,136)</b>	(4,161)	<b>(6,785)</b>	(8,528)
Net (loss) gain arising from hedge of a net investment in foreign operations (Note 9)	<b>(2,006)</b>	—	<b>6,602</b>	—
Total other comprehensive loss	<b>(4,707)</b>	(3,280)	<b>(4,080)</b>	(5,400)
Comprehensive income for the period	<b>7,834</b>	6,429	<b>25,454</b>	30,633
Comprehensive income (loss) for the period attributable to:				
Company shareholders	<b>7,947</b>	6,820	<b>25,557</b>	31,617
Non-controlling interests	<b>(113)</b>	(391)	<b>(103)</b>	(984)
	<b>7,834</b>	6,429	<b>25,454</b>	30,633

<sup>(1)</sup> Presented net of deferred income tax benefit of \$116 and \$473 for the three and nine months ended September 30, 2019, respectively, and deferred income tax benefit of \$274 and deferred income tax expense of \$136 for the three and nine months ended September 30, 2018, 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**

Nine months ended September 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			(389)					(389)		(389)
Share-based compensation (Note 8)			331				(357) <sup>(1)</sup>	(26)		(26)
Share-based compensation expense credited to capital on options exercised (Note 8)		48	(48)					—		—
Dividends on common shares (Note 8)							(24,702)	(24,702)		(24,702)
	<u>17,500</u>	<u>218</u>	<u>(113)</u>				<u>(25,059)</u>	<u>(24,954)</u>		<u>(24,954)</u>
Net earnings (loss)							36,120	36,120	(87)	36,033
Other comprehensive income (loss)										
Change in fair value of interest rate swap agreements designated as cash flow hedges <sup>(2)</sup> (Note 9)					3,318	3,318		3,318		3,318
Reclassification adjustments for amounts recognized in profit or loss (Note 9)					(190)	(190)		(190)		(190)
Change in cumulative translation adjustments				(7,631)		(7,631)		(7,631)	(897)	(8,528)
				<u>(7,631)</u>	<u>3,128</u>	<u>(4,503)</u>		<u>(4,503)</u>	<u>(897)</u>	<u>(5,400)</u>
Comprehensive income (loss) for the period				<u>(7,631)</u>	<u>3,128</u>	<u>(4,503)</u>	<u>36,120</u>	<u>31,617</u>	<u>(984)</u>	<u>30,633</u>
Non-controlling interest arising from investment in Polyair <sup>(3)</sup>									421	421
Capital transactions with non-controlling shareholders of Capstone <sup>(4)</sup> (Note 10)									10,699	10,699
Recognition of non-controlling interest put options arising from the acquisition of Capstone (Note 9)							(10,888)	(10,888)	—	(10,888)
Balance as of September 30, 2018	<u>58,817,410</u>	<u>350,977</u>	<u>17,417</u>	<u>(22,688)</u>	<u>4,716</u>	<u>(17,972)</u>	<u>(106,514)</u>	<u>243,908</u>	<u>16,725</u>	<u>260,633</u>

(1) Presented net of income tax benefit of \$120 for the nine months ended September 30, 2018.

(2) Presented net of deferred income tax expense of \$136 for the nine months ended September 30, 2018.

(3) As part of the acquisition of Polyair Inter Pack Inc. ("Polyair"), on August 3, 2018, the Company indirectly obtained a controlling 50.1% interest in the Polyair subsidiary GPCP Inc.

(4) Refers to the purchase by the Company of Capstone Polyweave Private Limited ("Capstone"). Refer to Note 10 for additional information on the Company's capital transactions with non-controlling shareholders of Capstone.

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

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

Nine months ended September 30, 2019

(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, 2018	58,650,310	350,267	17,074	(24,170)	2,490	(21,680)	(95,814)	249,847	11,581	261,428
Transactions with owners										
Exercise of stock options (Note 8)	226,875	2,015						2,015		2,015
Change in excess tax benefit on exercised share-based awards		42	(42)					—		—
Change in excess tax benefit on outstanding share-based awards			55					55		55
Share-based compensation (Note 8)			521				(44) <sup>(1)</sup>	477		477
Share-based compensation expense credited to capital on options exercised (Note 8)		647	(647)					—		—
Dividends on common shares (Note 8)							(25,141)	(25,141)		(25,141)
	<u>226,875</u>	<u>2,704</u>	<u>(113)</u>				<u>(25,185)</u>	<u>(22,594)</u>		<u>(22,594)</u>
Net earnings (loss)							29,584	29,584	(50)	29,534
Other comprehensive income (loss)										
Change in fair value of interest rate swap agreements designated as cash flow hedges <sup>(2)</sup> (Note 9)					(3,641)	(3,641)		(3,641)		(3,641)
Reclassification adjustments for amounts recognized in earnings related to interest rate swap agreements (Note 9)					(256)	(256)		(256)		(256)
Change in cumulative translation adjustments				(6,732)		(6,732)		(6,732)	(53)	(6,785)
Net gain arising from hedge of a net investment in foreign operations (Note 9)				6,602		6,602		6,602	—	6,602
				<u>(130)</u>	<u>(3,897)</u>	<u>(4,027)</u>		<u>(4,027)</u>	<u>(53)</u>	<u>(4,080)</u>
Comprehensive income (loss) for the period				<u>(130)</u>	<u>(3,897)</u>	<u>(4,027)</u>	29,584	25,557	(103)	25,454
<b>Balance as of September 30, 2019</b>	<b><u>58,877,185</u></b>	<b><u>352,971</u></b>	<b><u>16,961</u></b>	<b><u>(24,300)</u></b>	<b><u>(1,407)</u></b>	<b><u>(25,707)</u></b>	<b><u>(91,415)</u></b>	<b><u>252,810</u></b>	<b><u>11,478</u></b>	<b><u>264,288</u></b>

(1) Presented net of income tax benefit of \$16 for the nine months ended September 30, 2019.

(2) Presented net of deferred income tax benefit of \$473 for the nine months ended September 30, 2019.

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

**Intertape Polymer Group Inc.****Consolidated Cash Flows**

Periods ended September 30,

(In thousands of US dollars)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net earnings	12,541	9,709	29,534	36,033
Adjustments to net earnings				
Depreciation and amortization	15,697	11,713	45,238	31,765
Income tax expense	4,252	2,246	13,861	9,032
Interest expense	7,764	3,952	24,022	10,359
Non-cash charges in connection with manufacturing facility closures, restructuring and other related charges	526	5,237	2,535	5,235
Share-based compensation expense	456	1,847	2,042	1,543
Loss (gain) on foreign exchange	34	(1,983)	(608)	(293)
Pension and other post-retirement expense related to defined benefit plans	530	589	1,571	2,015
Other adjustments for non-cash items	1,009	307	1,597	1,227
Income taxes paid, net	(3,417)	(702)	(7,390)	(339)
Contributions to defined benefit plans	(238)	(11,958)	(985)	(13,474)
Cash flows from operating activities before changes in working capital items	39,154	20,957	111,417	83,103
Changes in working capital items				
Trade receivables	(2,806)	(14,729)	(17,296)	(20,565)
Inventories	232	(217)	(10,247)	(24,979)
Other current assets	700	(3,025)	8,973	(4,711)
Accounts payable and accrued liabilities and share-based compensation liabilities, current	11,251	9,227	(30,440)	(12,244)
Provisions	(181)	852	(675)	26
	9,196	(7,892)	(49,685)	(62,473)
Cash flows from operating activities	48,350	13,065	61,732	20,630
<b>INVESTING ACTIVITIES</b>				
Acquisition of subsidiary, net of cash acquired	—	(144,962)	—	(144,962)
Purchases of property, plant and equipment	(9,343)	(22,874)	(38,587)	(57,622)
Other investing activities	(659)	(281)	(512)	(637)
Cash flows from investing activities	(10,002)	(168,117)	(39,099)	(203,221)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>FINANCING ACTIVITIES</b>				
Proceeds from borrowings	<b>35,531</b>	206,113	<b>150,300</b>	679,828
Repayment of borrowings	<b>(59,644)</b>	(38,056)	<b>(133,969)</b>	(454,005)
Payments of debt issue costs	<b>(76)</b>	(143)	<b>(76)</b>	(2,761)
Interest paid	<b>(3,605)</b>	(3,542)	<b>(20,864)</b>	(8,071)
Proceeds from exercise of stock options	—	—	<b>2,015</b>	163
Dividends paid	<b>(8,709)</b>	(8,214)	<b>(25,250)</b>	(24,687)
Cash outflow from capital transactions with non-controlling interest in Capstone	—	(2,630)	—	(2,630)
Other financing activities	<b>22</b>	189	<b>(84)</b>	189
Cash flows from financing activities	<b>(36,481)</b>	153,717	<b>(27,928)</b>	188,026
Net increase (decrease) in cash	<b>1,867</b>	(1,335)	<b>(5,295)</b>	5,435
Effect of foreign exchange differences on cash	<b>(1,264)</b>	42	<b>(157)</b>	(1,891)
Cash, beginning of period	<b>12,596</b>	13,930	<b>18,651</b>	9,093
Cash, end of period	<b>13,199</b>	12,637	<b>13,199</b>	12,637

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)

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	13,199	18,651
Trade receivables	146,296	129,285
Inventories	198,747	190,675
Other current assets	17,700	24,395
	<u>375,942</u>	<u>363,006</u>
Property, plant and equipment	419,053	377,076
Goodwill	107,761	107,714
Intangible assets	117,136	122,389
Deferred tax assets (Note 5)	28,134	25,069
Other assets	8,340	9,586
Total assets	<u>1,056,366</u>	<u>1,004,840</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	135,515	154,838
Share-based compensation liabilities, current (Note 8)	6,958	5,066
Provisions, current	1,997	2,262
Borrowings, current	21,959	14,389
	<u>166,429</u>	<u>176,555</u>
Borrowings, non-current	537,610	485,596
Pension, post-retirement and other long-term employee benefits	15,553	14,898
Share-based compensation liabilities, non-current (Note 8)	3,906	4,125
Non-controlling interest put options (Note 9)	10,391	10,499
Deferred tax liabilities (Note 5)	46,185	42,321
Provisions, non-current	3,812	4,194
Other liabilities	8,192	5,224
Total liabilities	<u>792,078</u>	<u>743,412</u>
<b>EQUITY</b>		
Capital stock (Note 8)	352,971	350,267
Contributed surplus	16,961	17,074
Deficit	(91,415)	(95,814)
Accumulated other comprehensive loss	(25,707)	(21,680)
Total equity attributable to Company shareholders	<u>252,810</u>	<u>249,847</u>
Non-controlling interests	11,478	11,581
Total equity	<u>264,288</u>	<u>261,428</u>
Total liabilities and equity	<u>1,056,366</u>	<u>1,004,840</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**

September 30, 2019

(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, protective packaging, engineered coated products 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 September 30, 2019 and December 31, 2018, as well as its consolidated earnings, comprehensive income and cash flows for the three and nine months ended September 30, 2019 and 2018 and the changes in equity for the nine months ended September 30, 2019 and 2018.

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 standard 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 November 8, 2019.

##### **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, the re-measurement of the defined benefit liability, and the measurement of lease liabilities under IFRS 16 - *Leases*, discussed below, which requires judgment as to the certainty of renewal options to be exercised and the discount rates applied.

## New Standards Adopted as of January 1, 2019

IFRS 16 - *Leases* ("IFRS 16"), which replaced IAS 17 - *Leases* along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'), introduced 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 became effective for annual reporting periods beginning on or after January 1, 2019. The new standard has been applied using the modified retrospective approach and as a result, prior periods have not been restated. The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease and the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before January 1, 2019 ("the date of initial application"). For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application. The Company has applied recognition exemptions across its complete portfolio of leased assets for short-term leases and leases of low value items. Furthermore, the Company has used certain relevant practical expedients available under the modified retrospective approach. Specifically, these include (i) applying a single discount rate to a portfolio of leases with reasonably similar characteristics, (ii) relying on the assessment of whether leases are onerous applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review, (iii) excluding leases for which the lease term ends within 12 months of the date of initial application, (iv) excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application, and (v) using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease. The Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of initial application.

The adoption of this new guidance resulted in changes to the balance sheet as of January 1, 2019, including (i) recognition of \$31.1 million in right-of-use assets included in property, plant and equipment, (ii) the recognition of \$31.5 million in lease liabilities included in borrowings, current and non-current, (iii) decrease of \$0.1 million in accounts payable and accrued liabilities and (iv) decrease of \$0.3 million in other liabilities.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized was 6.6%. These rates are based on market rates as of January 1, 2019 for a BB- rated industrial company issuing debt for maturities ranging from 3 months to 10 years.

The following is a reconciliation of total operating lease commitments as of December 31, 2018 to the lease liabilities recognized as of January 1, 2019:

	Lease details
	\$
Total operating lease commitments disclosed as of December 31, 2018	35,544
Recognition exemptions:	
Leases of low value assets	(226)
Leases with remaining lease term of less than 12 months	(2,093)
Other minor adjustments relating to commitment disclosures	(670)
Operating lease liabilities before discounting	32,555
Discounted using incremental borrowing rate	(5,754)
Reasonably certain extension options	4,683
Operating lease liabilities recognized under IFRS 16 as of January 1, 2019	31,484
Finance lease liabilities	5,712
Total lease liabilities recognized under IFRS 16 as of January 1, 2019	37,196



Lease liabilities are presented in the consolidated balance sheet under the caption borrowings as follows:

	<b>September 30, 2019</b>	December 31, 2018
	\$	\$
Lease liabilities (current)	<b>6,049</b>	1,441
Lease liabilities (non-current)	<b>39,789</b>	4,271
	<b>45,838</b>	5,712

Rent expense relating to payments not included in the measurement of a lease liability was approximately \$1.0 million and \$3.6 million for the three and nine months ended September 30, 2019, respectively. Interest expense relating to payments on the lease liability was approximately \$0.7 million and \$1.8 million for the three and nine months ended September 30, 2019, respectively, and are included in interest expense under the caption finance costs (income) in earnings.

Included in the net carrying amount of property, plant and equipment presented in the consolidated balance sheet are right-of-use assets as follows:

	September 30, 2019	January 1, 2019
	\$	\$
Buildings	36,300	27,960
Manufacturing equipment	2,557	1,914
Furniture, office equipment and other	934	1,180
Right-of-use assets	<b>39,791</b>	<b>31,054</b>

Depreciation expense related to the right-of-use assets was approximately \$1.7 million and \$4.7 million for the three and nine months ended September 30, 2019, respectively.

#### *Accounting policy applicable from January 1, 2019*

Contracts entered into on or after January 1, 2019 that meet the definition of a lease are recognized on the balance sheet as a right-of-use asset and a lease liability, unless they are determined to be low value or short-term leases. At the lease commencement date, the lease liability is measured at the present value of the lease payments unpaid at that date, including non-lease components, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate. Lease payments are apportioned between the finance cost and the liability. The finance charge is recognized in earnings in finance costs and is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

At the lease commencement date, the right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Right-of-use assets are depreciated on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The lease liability is remeasured to reflect any reassessment or modification and the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already fully depreciated.

The classification of a short-term lease is re-assessed if the terms of the lease are changed. Lease payments related to low value and short-term leases are recognized in earnings on a straight-line basis over the lease term.

#### *Other pronouncements and amendments*

In the current year, the Company has applied a number of other amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after January 1, 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

## 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:

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 the *Conceptual Framework* on the Company's financial statements.

On September 26, 2019, the IASB published Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) in response to the ongoing reform of interest rate benchmarks around the world. The objective of the amendments is to provide temporary exceptions from applying specific hedge accounting requirements during the period of uncertainty arising from the reform. The amendments are effective on January 1, 2020. Management is currently assessing but has not yet determined the impact 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 September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>Employee benefit expense</b>				
Wages, salaries and other short-term benefits	59,291	51,375	170,414	144,348
Share-based compensation expense (Note 8)	456	1,847	2,042	1,543
Pension, post-retirement and other long-term employee benefit plans:				
Defined benefit plans	546	606	1,621	2,070
Defined contributions plans	1,700	1,389	5,754	4,403
	<u>61,993</u>	<u>55,217</u>	<u>179,831</u>	<u>152,364</u>
<b>Finance costs - Interest</b>				
Interest on borrowings	7,968	4,436	24,914	10,200
Amortization of debt issue costs on borrowings	303	139	890	1,608
Interest capitalized to property, plant and equipment	(507)	(623)	(1,782)	(1,449)
	<u>7,764</u>	<u>3,952</u>	<u>24,022</u>	<u>10,359</u>
<b>Finance costs - Other (income) expense, net</b>				
Foreign exchange loss (gain)	36	(1,981)	(606)	(296)
Other (income) costs, net	(495)	484	290	1,253
	<u>(459)</u>	<u>(1,497)</u>	<u>(316)</u>	<u>957</u>
<b>Additional information</b>				
Depreciation of property, plant and equipment	13,021	9,863	37,486	27,844
Amortization of intangible assets	2,676	1,850	7,752	3,921
Impairment of assets	1,341	5,685	3,998	6,238

#### 4 - MANUFACTURING FACILITY CLOSURES, RESTRUCTURING AND OTHER CHARGES

As part of a plan to realize operational synergies gained from the acquisition of Canadian Technical Tape Ltd., which was completed in July 2017, the Company closed its Johnson City, Tennessee manufacturing facility at the end of 2018 and subsequently sold the facility in June 2019. In April 2019, the Company announced that it will close its Montreal, Quebec manufacturing facility, and by August 2019 had transferred substantially all manufacturing operations to other existing manufacturing facilities. The Company expects to complete the closure of the manufacturing facility by the end of 2019.

The charges incurred in the three months ended September 30, 2019 totalled \$1.6 million and were primarily related to the closure of the Montreal, Quebec manufacturing facility. The charges incurred were comprised of cash costs of \$1.1 million mainly related to restoration, ongoing idle facility and other labor costs, and non-cash impairments of \$0.5 million for inventory and property, plant and equipment.

The charges incurred in the nine months ended September 30, 2019 totalled \$5.8 million and were comprised of cash costs of \$3.3 million and non-cash impairments of \$2.5 million for inventory and property, plant and equipment related to the closures of both the Montreal, Quebec and Johnson City, Tennessee manufacturing facilities. Cash costs incurred were mainly for termination benefits, restoration and ongoing idle facility costs related to the closure of the Montreal, Quebec manufacturing facility as well as the post-closure activities of the Johnson City, Tennessee manufacturing facility.

The charges incurred in the three and nine months ended September 30, 2018 totalled \$5.8 million and \$5.5 million, respectively, and were primarily due to non-cash impairments of property, plant and equipment and inventory related to the closure of the Johnson City, Tennessee manufacturing facility.

#### 5 - INCOME TAXES

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Income tax expense	\$ 4,252	\$ 2,246	\$ 13,861	\$ 9,032
Earnings before income tax expense	\$ 16,793	\$ 11,955	\$ 43,395	\$ 45,065
Effective tax rate	25.3%	18.8%	31.9%	20.0%

The increase in the effective tax rate in the three months ended September 30, 2019 as compared to the same period in 2018 was primarily due to the elimination of certain tax benefits as a result of the Tax Cuts and Jobs Act related to intercompany debt and the non-recurrence of a net federal tax benefit associated with a discretionary pension contribution made in the third quarter of 2018.

The increase in the effective tax rate in the nine months ended September 30, 2019 was primarily due to the proposed state income tax assessment recognized in the second quarter of 2019 resulting from the denial of the utilization of certain net operating losses generated in tax years 2000-2006 and the elimination of certain tax benefits as a result of the Tax Cuts and Jobs Act related to intercompany debt.

#### 6 - EARNINGS PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Basic	58,877,185	58,817,410	58,764,165	58,810,166
Effect of stock options	181,573	263,883	190,520	300,999
Diluted	59,058,758	59,081,293	58,954,685	59,111,165

For the three and nine months ended September 30, 2019 and 2018, the number of stock options that were anti-dilutive and not included in diluted earnings per share calculations were 242,918.

## 7 - COMMITMENTS

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

	September 30, 2019	December 31, 2018
Commitments to purchase machinery and equipment	\$ 8,428	\$ 16,256

## 8 - CAPITAL STOCK

### Common Shares

The Company's common shares outstanding as of September 30, 2019 and December 31, 2018 were 58,877,185 and 58,650,310, 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 12, 2019	March 29, 2019	\$0.14	March 22, 2019	58,665,310	\$ 8,189
May 8, 2019	June 28, 2019	\$0.14	June 14, 2019	58,877,185	\$ 8,352
August 7, 2019	September 30, 2019	\$0.1475	September 16, 2019	58,877,185	\$ 8,709

<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 the Company's normal course issuer bid ("NCIB"), the Company has the ability to repurchase for cancellation up to 4,000,000 common shares of the Company at prevailing market prices over the twelve-month period ended July 22, 2020.

There were no shares repurchased during the three and nine months ended September 30, 2019 and 2018. As of September 30, 2019 and 2018, there were 4,000,000 common shares available for repurchase under the NCIB.

The NCIB which expired on July 22, 2019 was renewed for a twelve-month period starting July 23, 2019. There were no shares repurchased under the renewed NCIB as of November 8, 2019.

## Stock Options

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Stock options granted <sup>(1)</sup>	—	—	<b>392,986</b>	242,918
Weighted average exercise price per stock option granted	—	—	<b>CDN\$17.54</b>	CDN\$21.76
Stock options exercised	—	—	<b>(226,875)</b>	(17,500)
Weighted average exercise price per stock option exercised	—	—	<b>CDN\$12.22</b>	CDN\$12.04
Stock options cancelled/forfeited	<b>(22,503)</b>	—	<b>(32,503)</b>	—
Weighted average exercise price per stock option cancelled/forfeited	<b>CDN\$17.54</b>	—	<b>CDN\$15.85</b>	—

<sup>(1)</sup> The Company's prior Executive Stock Option Plan ("ESOP"), which was adopted in 1992 and last ratified on June 4, 2015, elapsed on June 4, 2018. No further grants of stock options were made under the ESOP after June 4, 2018. On March 12, 2019, the Board of Directors adopted a new Executive Stock Option Plan ("2019 ESOP") and on June 6, 2019, shareholders approved the 2019 ESOP at the Company's Annual Meeting of Shareholders.

	September 30, 2019
Stock options outstanding	1,143,401
Weighted average exercise price per stock option outstanding	CDN\$16.04

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:

	Nine months ended September 30,	
	2019	2018
Expected life	4.9 years	4.8 years
Expected volatility <sup>(1)</sup>	29.79%	32.09%
Risk-free interest rate	1.44%	2.05%
Expected dividends	4.27%	3.30%
Stock price at grant date	CDN\$17.54	CDN\$21.76
Exercise price of awards	CDN\$17.54	CDN\$21.76
Foreign exchange rate USD to CDN	1.3380	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

The following tables summarize information related to restricted share units ("RSUs"):

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
RSUs granted	—	—	120,197	113,047
Weighted average fair value per RSU granted	—	—	\$ 13.74	\$ 16.29
RSUs forfeited	(5,399)	(1,228)	(5,399)	(1,228)
	<b>September 30, 2019</b>			
RSUs outstanding	226,617			
Weighted average fair value per RSU outstanding	\$ 13.03			

## Deferred Share Units

The following tables summarize information related to deferred share units ("DSUs"):

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
DSUs granted	2,667	—	63,431	43,203
Weighted average fair value per DSU granted	\$ 13.66	—	\$ 14.00	\$ 14.94
DSUs settled	—	—	—	(37,668)
Weighted average fair value per DSU settled	—	—	—	\$ 14.50
Cash payments on DSUs settled	—	—	—	\$ 546
	<b>September 30, 2019</b>			
DSUs outstanding	262,424			
Weighted average fair value per DSU outstanding	\$ 13.03			

## Performance Share Units

On August 7, 2019, the Board of Directors amended the terms of the Performance Share Unit ("PSU") awards granted in 2017 only to modify the performance adjustment factor specific to the Total Shareholder Return ("TSR") ranking relative to a specified peer group of companies over the measurement period. As amended, the TSR performance adjustment factor is determined by interpolating, on a straight-line basis, between 0% and 50% of target shares where the relative TSR ranking is between the 25th and 50th percentile and between 50% and 100% of target shares where the relative TSR ranking is between the 51st and 75th percentile. The fair value of the 2017 PSU awards at the modification date was \$10.37 per unit, on a post-modification basis, and the incremental fair value was \$1.79 per unit or \$0.5 million. As cash settled awards, PSUs are remeasured at each reporting period end date and the changes in fair value, including that resulting from the above modification, are recognized in earnings.

The following table summarizes information about PSUs during the period:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
PSUs granted	—	—	<b>291,905</b>	284,571
Weighted average fair value per PSU granted	—	—	<b>\$14.28</b>	\$17.84
PSUs forfeited	<b>(14,070)</b>	(14,540)	<b>(14,070)</b>	(16,053)
PSUs cancelled by performance factor <sup>(1)</sup>	—	—	<b>(371,158)</b>	(2,125)
PSUs settled <sup>(1)</sup>	—	—	—	(335,465)
Weighted average fair value per PSU settled	—	—	—	\$15.87
Cash payments on PSUs settled <sup>(2)</sup>	—	—	—	\$5,863

<sup>(1)</sup> The following table provides further information regarding the PSUs settled and adjusted by performance factor included in the table above. The number of "Target Shares" reflects 100% of the PSUs granted and the number of PSUs settled reflects the performance adjustments to the Target Shares.

Grant Date	Date Settled	Target Shares	Performance	PSUs settled
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
March 21, 2016	March 21, 2019	371,158	—%	—

<sup>(2)</sup> Cash payments on PSUs settled include 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:

	Nine months ended September 30,	
	2019	2018
Expected life	<b>3 years</b>	3 years
Expected volatility <sup>(1)</sup>	<b>25%</b>	30%
US risk-free interest rate	<b>2.36%</b>	2.43%
Canadian risk-free interest rate	<b>1.60%</b>	1.96%
Expected dividends <sup>(2)</sup>	<b>0%</b>	0%
Performance period starting price <sup>(3)</sup>	<b>CDN\$16.36</b>	CDN\$21.13
Closing stock price on TSX as of the estimation date	<b>CDN\$18.06</b>	CDN\$20.59

<sup>(1)</sup> 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.

<sup>(2)</sup> A participant receives 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.

<sup>(3)</sup> The performance period starting price is measured as the volume weighted average price for the common shares of the Company on the TSX on the grant date.

The following table summarizes information about PSUs outstanding as of:

	September 30, 2019
PSUs outstanding	940,916
Weighted average fair value per PSU outstanding	\$ 11.27

Based on the Company's current performance adjustment factors, the number of PSUs earned if all of the outstanding PSUs were to be settled at September 30, 2019 would be as follows:

Grant Date	Performance
December 20, 2016	0%
March 20, 2017	58.4%
March 21, 2018	115.1%
March 21, 2019	77.2%

### Stock Appreciation Rights

There were no stock appreciation rights ("SARs") outstanding as of September 30, 2019 and 2018, and there was no activity during the nine months ended September 30, 2019. There was no activity during the three months ended September 30, 2019 and 2018. During the nine months ended September 30, 2018, there were 147,500 SARs exercised at a base price of CDN\$7.56 with cash payments on exercise totalling \$1.5 million.

### 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 expense:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Stock options	134	136	521	331
PSUs	193	1,125	(181)	375
RSUs	192	160	731	381
DSUs	(63)	426	971	553
SARs	—	—	—	(97)
	<u>456</u>	<u>1,847</u>	<u>2,042</u>	<u>1,543</u>

The following table summarizes share-based compensation liabilities, including dividend equivalents, recorded in the consolidated balance sheets as of:

	September 30, 2019	December 31, 2018
	\$	\$
Share-based compensation liabilities, current		
PSUs <sup>(1)</sup>	3,318	2,563
RSUs <sup>(1)</sup>	177	86
DSUs <sup>(2)</sup>	3,463	2,417
Total share-based compensation liabilities, current	<u>6,958</u>	<u>5,066</u>
Share-based compensation liabilities, non-current		
PSUs <sup>(1)</sup>	2,903	3,764
RSUs <sup>(1)</sup>	1,003	361
Total share-based compensation liabilities, non-current	<u>3,906</u>	<u>4,125</u>

(1) Includes dividend equivalents accrued.

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



## 9 - FINANCIAL INSTRUMENTS

### Classification and Fair Value of Financial Instruments

The carrying amounts of the following financial assets and liabilities are considered a reasonable approximation of fair value given their short maturity periods:

- cash
- trade receivables
- supplier rebates and other receivables
- accounts payable and accrued liabilities
- amounts due to former shareholders of Polyair<sup>(1)</sup>

<sup>(1)</sup> Represents amounts that were payable to the former shareholders of Polyair relating to estimated income tax benefits as a result of the Company's payment of certain deal-related costs on behalf of Polyair. On April 9, 2019, the Company paid \$2.3 million to the former shareholders of Polyair for full and complete settlement of the amounts due to the former shareholders of Polyair. As of December 31, 2018, the short and long-term obligations were included in accounts payable and accrued liabilities and other liabilities, respectively.

#### *Borrowings*

The fair value of the Company's \$250 million senior unsecured notes issued in October 2018 ("Senior Unsecured Notes") is based on the trading levels and bid/offer prices observed by a market participant. As of September 30, 2019 and December 31, 2018, the Senior Unsecured Notes had a carrying value, including unamortized debt issuance costs, of \$245.6 million and \$245.3 million, respectively, and a fair value of \$259.1 million and \$248.7 million, respectively.

The Company's borrowings, other than the Senior Unsecured Notes, consist primarily of variable rate debt. The corresponding fair values are estimated using observable market interest rates of similar variable rate loans with similar risk and credit standing. Accordingly, the carrying amounts are considered to be a reasonable approximation of the fair values.

As of September 30, 2019 and December 31, 2018, the Company categorizes its borrowings as Level 2 on the three-level fair value hierarchy.

#### *Interest Rate Swaps*

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.

As of September 30, 2019, and December 31, 2018, the Company categorizes its interest rate swaps as Level 2 on the three-level fair value hierarchy, meaning that the fair value is estimated using a valuation technique based on unobservable market data, either directly or indirectly.

#### *Non-Controlling Interest Put Options*

In connection with the acquisition of Airtrax on May 11, 2018, the Company, through its partially owned subsidiary, Capstone, is party to a shareholders' agreement that contains put options, which provide each of the non-controlling interest shareholders of Capstone with the right to require the Company to purchase their retained interest at a variable purchase price following a five-year lock-in period following the date of acquisition. The agreed-upon purchase price is equal to the fair market valuation as determined through a future negotiation or, as needed, a valuation to be performed by an independent and qualified expert at the time of exercise. During the nine months ended September 30, 2019, the obligation was remeasured due to changes in exchange rates resulting in a \$0.1 million decrease in the liability and a corresponding gain recorded in finance costs in other (income) expense, net. As of September 30, 2019 and December 31, 2018, the amount recorded on the consolidated balance sheet for this obligation is \$10.4 million and 10.5 million, respectively.

The Company categorizes its non-controlling interest put options as Level 3 of the fair value hierarchy, meaning that the fair value is estimated using a valuation technique based on unobservable market data. Details of inputs used in this valuation technique have been disclosed in the Company's audited consolidated financial statements and notes thereto as of December 31, 2018.

A reconciliation of the carrying amount of financial instruments classified within Level 3 follows for the years ended:

	Non-controlling interest put options
	\$
Balance as of December 31, 2018	10,499
Net foreign exchange differences	(108)
Balance as of September 30, 2019	10,391

### Interest Rate Swap Agreements

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.

The terms of the interest rate swap agreements are as follows as of September 30, 2019:

Effective Date	Maturity	Notional Amount \$	Settlement	Fixed interest rate paid %
<u>Qualifying cash flow hedges:</u>				
June 8, 2017	June 20, 2022	40,000	Monthly	1.7900
July 21, 2017	July 18, 2022	CDN\$36,000 <sup>(1)</sup>	Monthly	1.6825
August 20, 2018	August 18, 2023	60,000	Monthly	2.0450
<u>Non-qualifying cash flow hedges:</u>				
March 18, 2015	November 18, 2019	40,000	Monthly	1.6100

<sup>(1)</sup> The notional amount will decrease by CDN\$18.0 million on July 18, 2021 and 2022.

The following tables summarize information regarding interest rate swap agreements designated as hedging instruments:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
(Decrease)/increase in fair value of the hedging instrument recognized in OCI <sup>(1)</sup>	(596)	797	(4,114)	3,454
Decrease/(increase) in deferred tax expense recognized in OCI	116	274	473	(136)
Amounts reclassified from cash flow hedging reserve to earnings <sup>(2)</sup>	(85)	(190)	(256)	(190)

(1) The hedging (loss)/gain recognized in other comprehensive income ("OCI") before tax is equal to the change in fair value used for measuring effectiveness. There is no ineffectiveness recognized in earnings.

(2) Reclassification of unrealized gains from OCI as a result of the discontinuation of hedge accounting for the interest rate swap agreement not qualifying as a cash flow hedge are included in interest expense under the caption finance costs (income) in earnings.

	September 30, 2019	December 31, 2018
	\$	\$
Carrying amount included in other assets	75	2,266
Carrying amount included in other liabilities	1,924	—
(Debit)/credit balance in cash flow hedge reserve, included in OCI, for continuing hedges	(1,464)	2,177
Credit balance remaining in cash flow hedge reserve, included in OCI, from hedging relationship for which hedge accounting no longer applies	57	313

### Hedge of net investment in foreign operations

A foreign currency exposure arises from the Parent Company's net investment in its USD functional currency subsidiary, IPG (US) Holdings Inc. The risk arises from the fluctuations in the USD and Canadian dollar current exchange rate, which causes the amount of the net investment in IPG (US) Holdings Inc. to vary. The Company currently uses its Senior Unsecured Notes to hedge the Company's exposure to the USD foreign exchange risk on this investment.

The changes in value related to the Senior Unsecured Notes designated as a hedging instrument, in the hedge of a net investment, are as follows for the three and nine months ended September 30, 2019 (nil for the three and nine months ended September 30, 2018):

	Three months ended September 30,	Nine months ended September 30,
	2019	2019
	\$	\$
(Losses)/gains from change in value of hedging instrument used for calculating hedge ineffectiveness	(2,298)	7,532
(Losses)/gains from hedging instrument recognized in OCI	(2,006)	6,602
(Losses)/gains from hedge ineffectiveness recognized in earnings in finance costs in other expense, net	(293)	906
Foreign exchange gains recognized in cumulative translation adjustments in the statement of changes in equity	1	24

The notional and carrying amounts of the Senior Unsecured Notes are as follows:

	<b>September 30, 2019</b>	December 31, 2018
	\$	\$
Notional amount	<b>250,000</b>	250,000
Carrying amount	<b>245,580</b>	245,252

The amounts related to the net investment in IPG (US) Holdings, Inc., designated as the hedged item in the hedge of a net investment, are as follows for the three and nine months ended September 30, 2019 (nil for the three and nine months ended September 30, 2018):

	Three months ended September 30,	Nine months ended September 30,
	2019	2019
	\$	
Increase (decrease) in value used for calculating hedge ineffectiveness	2,006	(6,602)

The cumulative amounts included in the foreign currency translation reserve related to the net investment in IPG (US) Holdings, Inc., designated as the hedged item in the hedge of a net investment, is as follows:

	<b>September 30, 2019</b>	December 31, 2018
	\$	\$
Debit balance included in foreign currency translation reserve in OCI	<b>(2,819)</b>	(9,421)

## **10 - CAPITAL TRANSACTIONS WITH CAPSTONE**

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. As part of the agreement, the minority shareholders of Capstone contributed in kind certain assets and liabilities valued at \$13.4 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 minority shareholders' in-kind contribution made to Capstone and the Company's initial consideration value paid to the minority shareholders through the issuance of Capstone shares, the Company recorded a \$10.9 million increase to equity attributable to non-controlling interest as well as a temporary \$2.5 million credit to deficit in the consolidated changes in equity for the six months ended June 30, 2018 with the expectation that additional shares would be subsequently sold and issued to the Company at a later date.

On August 10, 2018, the Company acquired additional existing and newly-issued shares of Capstone in exchange for \$3.6 million in cash as part of the same overall transaction, thus increasing its equity investment in Capstone by the same amount. As a result, the Company recorded a \$2.5 million debit to deficit and a \$0.1 million decrease to equity attributable to non-controlling interest (net of changes in cumulative translation adjustments relating to this transaction) in the consolidated changes in equity for the nine months ended September 30, 2018 to reflect the Company's increased equity position in Capstone and the minority shareholders' decreased equity position in Capstone once the shares were issued and sold. The remaining \$1.0 million paid for the additional shares was recorded as cash on the balance sheet of Capstone.

Since September 30, 2018, the Company has held a 55% controlling ownership stake in Capstone while the minority shareholders hold a 45% non-controlling interest in Capstone.

## **11 - POST REPORTING EVENTS**

### *Non-Adjusting Events*

- On November 8, 2019, the Company declared a quarterly cash dividend of \$0.1475 per common share payable on December 30, 2019 to shareholders of record at the close of business on December 16, 2019. The estimated amount of this dividend payment is \$8.7 million based on 58,877,185 of the Company's common shares issued and outstanding as of November 8, 2019.

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



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