

HERITAGE COMMERCE CORP
Form 424B3
April 26, 2011

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Registration Statement No. 333-168299

PROSPECTUS

HERITAGE COMMERCE CORP

14,398,992 Shares of Common Stock

21,004 Shares of Series C Convertible Perpetual Preferred Stock

5,601,000 Shares of Common Stock Underlying the Series C Preferred Stock

This prospectus relates to the Securities listed below that may be offered for sale from time to time by the persons named in this prospectus (and their transferees) identified under the heading "selling securityholders" on page 12 of this prospectus who currently own such securities or may acquire such securities upon the conversion of securities currently held. We refer to these persons as the "selling securityholders."

An investment in the securities involves risks. You should carefully consider all of the information set forth in this prospectus, including the risk factors beginning on page 3 of this prospectus, as well as the risk factors and other information contained in any documents we incorporate by reference into this prospectus before investing in any of the securities.

This prospectus covers the following securities:

The shares of our Common Stock, no par value ("Common Stock"), issued upon the mandatory conversion into Common Stock of our Series B Mandatorily Convertible Cumulative Perpetual Preferred Stock ("Series B Preferred Stock");

Some or all of the 21,004 shares of our Series C Convertible Perpetual Preferred Stock ("Series C Preferred Stock");

The shares of our Common Stock issuable upon the mandatory conversion into Common Stock of our Series C Preferred Stock.

Pursuant to a Securities Purchase Agreement, dated June 18, 2010, entered into by Heritage Commerce Corp and each of the selling securityholders (or an affiliate of the selling securityholders), we issued shares of Series B Preferred Stock and Series C Preferred Stock to the selling securityholders in a private placement transaction exempt from the registration requirements of the Securities Act of 1933, as amended. We refer to this transaction as the "June 2010 Private Placement." At the Company's Special Meeting of Shareholders held on September 15, 2010, the Company's shareholders approved the issuance of Common Stock upon the conversion of the Series B Preferred Stock and upon the conversion of the Series C Preferred Stock as required by The NASDAQ Stock Market and California corporate law. As a result, on September 16, 2010, the Series B Preferred Stock was converted into 14,398,992 shares of Common Stock and the shares of Series B Preferred Stock ceased to be outstanding. The Series C Preferred Stock remains outstanding until it has been converted into Common Stock in

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accordance with its terms.

When used in this prospectus, the term "Securities" refers to the shares of Series C Preferred Stock and the shares of Common Stock. We agreed in the Securities Purchase Agreement to file this resale registration statement covering these Securities.

The selling securityholders who may sell or otherwise dispose of the Securities were the initial investors (or the permitted affiliate transferees of such investors) in the June 2010 Private Placement described above. The selling securityholders may offer the Securities from time to time directly or through underwriters, broker-dealers or agents and in one or more public or private transactions and at fixed prices, at prevailing market prices, at prices related to prevailing market prices, at various prices determined at the time of sale or otherwise or at negotiated prices. If the Securities are sold through underwriters, broker-dealers or agents, the selling securityholders (or the purchasers of the Securities as negotiated with the selling securityholders) will be responsible for underwriting discounts or commissions or agent commissions, if any. The registration of the Securities does not necessarily mean that any of the Securities will be sold by the selling securityholders. The timing and amount of any sale is within the selling securityholder's sole discretion, subject to certain restrictions. See "Plan of Distribution."

We will not receive any proceeds from the sale of Securities by the selling securityholders.

Shares of our Common Stock are traded on the NASDAQ Global Select Market under the symbol "HTBK." The Series C Preferred Stock is not currently listed on any established securities exchange or quotation system, and we do not intend to seek such listings. In the event we were to seek such listings, there is no guarantee that any established securities exchange or quotation system would accept the Series C Preferred Stock for listing.

None of the Securities and Exchange Commission, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System or any state securities commission has approved or disapproved of these Securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

These Securities are not savings accounts, deposits or other obligations of any bank and are not insured or guaranteed by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund or any other government agency or fund.

This date of this prospectus is March 29, 2011.

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ABOUT THIS PROSPECTUS

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different or inconsistent information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these Securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus or the documents incorporated by reference is accurate as of any date other than the date of such applicable document. Our business, financial condition, results of operations and prospects may have changed since that date.

Unless we state otherwise or the context indicates otherwise, references to "Heritage," "we," "us," "our" and "the Company" in this prospectus refer to Heritage Commerce Corp and its subsidiaries. References to "Heritage Bank of Commerce" or "HBC" mean our wholly-owned banking subsidiary.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus including the documents incorporated by reference in it, contains various statements that may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended ("Securities Exchange Act"), and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These forward-looking statements often can be, but are not always, identified by the use of words such as "assume," "expect," "intend," "plan," "project," "believe," "estimate," "predict," "anticipate," "may," "might," "should," "could," "goal," "potential" and similar expressions. We base these forward-looking statements on our current expectations and projections about future events, our assumptions regarding these events and our knowledge of facts at the time the statements are made. These statements include statements relating to our projected growth, anticipated future financial performance, and management's long-term performance goals, as well as statements relating to the anticipated effects on results of operations and financial condition.

These forward-looking statements are subject to various risks and uncertainties that may be outside our control and our actual results could differ materially from our projected results. In addition, our past results of operations do not necessarily indicate our future results. Please see our most recent Annual Report on Form 10-K for the year ended December 31, 2010 and our subsequent Quarterly Reports on Form 10-Q and the other information contained in this prospectus for a further discussion of these and other risks and uncertainties applicable to our business. The forward-looking statements could be affected by many factors, including but not limited to:

Competition for loans and deposits and failure to attract or retain deposits and loans;

Local, regional, and national economic conditions and events and the impact they may have on us and our customers, and our assessment of that impact on our estimates including, the allowance for loan losses;

Risks associated with concentrations in real estate related loans;

Changes in the level of nonperforming assets and charge-offs and other credit quality measures, and their impact on the adequacy of the Company's allowance for loan losses and the Company's provision for loan losses;

The effects of and changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Federal Open Market Committee of the Federal Reserve Board;

Stability of funding sources and continued availability of borrowings;

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Our compliance with and the effects of the regulatory Written Agreement the Company and Heritage Bank of Commerce, its subsidiary bank, have entered into with their regulators;

The effect of changes in laws and regulations with which the Company and Heritage Bank of Commerce must comply, including any increase in FDIC insurance premiums;

Our ability to raise capital or incur debt on reasonable terms;

Regulatory limits on Heritage Bank of Commerce's ability to pay dividends to the Company;

Future legislative or administrative changes to the U.S. Treasury Capital Purchase Program enacted under the Emergency Economic Stabilization Act of 2008;

The impact of the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Act of 2009 and related rules and regulations on our business operations and competitiveness, including the impact of executive compensation restrictions, which may affect our ability to retain and recruit executives in competition with other firms who do not operate under those restrictions;

The impact of the Dodd Frank Wall Street Reform and Consumer Protection Act signed by President Obama on July 21, 2010;

The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;

Changes in the deferred tax asset valuation allowance in future quarters;

The costs and effects of legal and regulatory developments, including resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations or reviews;

The ability to increase market share and control expenses; and

Our success in managing the risks involved in the foregoing items.

We are not able to predict all the factors that may affect future results. You should not place undue reliance on any forward-looking statement, which speaks only as of the date of this prospectus or the date of the document incorporated by reference. Except as required by applicable laws or regulations, we do not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

INFORMATION INCORPORATED BY REFERENCE

The SEC allows us to "incorporate by reference" the information contained in the documents we file with the SEC, which means that we can disclose important information to you in this prospectus by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus.

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We incorporate by reference the documents listed below (other than filings or portions of filings that, under applicable SEC rules, are "furnished" rather than "filed"):

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as filed on March 7, 2011;

Current Reports on Form 8-K filed on January 14, 2011, and February 1, 2011; and

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The description of our Common Stock contained in our Registration Statement on Form 8-A, dated March 5, 1998, which registers our Common Stock under Section 12 of the Exchange Act, together with any amendments or reports filed with the SEC for the purpose of updating the description.

You may obtain a copy of these filings at no cost by writing to us at Heritage Commerce Corp, 150 Almaden Boulevard, San Jose, California 95113, Attention: Corporate Secretary or by telephone request to our Corporate Secretary at (408) 947-6900.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly, and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). Our SEC filings are available to the public on the Internet at the SEC's website at www.sec.gov and on our website www.heritagecommercecorp.com (as soon as practicable after we electronically file such materials with, or furnish them to, the SEC). Except for those SEC filings incorporated by reference in this prospectus, none of the information contained on, or that may be accessed through, our website is a prospectus or constitutes part of, or is otherwise incorporated into, this prospectus.

You may also read and copy any document we file with the SEC at its public reference facilities at 100 F Street N.E., Washington, D.C. 20549. You can also obtain copies of the documents upon the payment of a duplicating fee to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

This prospectus omits some information contained in the registration statement in accordance with SEC rules and regulations. You should review the information and exhibits included in the registration statement for further information about us and the securities we are offering. Statements in this prospectus concerning any document we filed as an exhibit to the registration statement or that we otherwise filed with the SEC are not intended to be comprehensive and are qualified by reference to these filings. You should review the complete document to evaluate these statements.

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PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere or incorporated by reference in this prospectus and may not contain all the information that you need to consider in making your investment decision. You should carefully read this entire prospectus, as well as the information to which we refer you and the information incorporated by reference herein, before deciding whether to invest in our Securities. You should pay special attention to the "Risk Factors" section of this prospectus to determine whether an investment in the Securities is appropriate for you.

About Heritage Commerce Corp

Heritage Commerce Corp, a California corporation organized in 1997, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. We provide a wide range of banking services through Heritage Bank of Commerce, our wholly-owned subsidiary and our principal asset. Heritage Bank of Commerce is a California state-chartered bank headquartered in San Jose, California and has been conducting business since 1994.

Heritage Bank of Commerce is a multi-community independent bank that offers a full range of commercial banking services to small and medium-sized businesses and their owners, managers and employees. We operate through 10 full service branch offices located entirely in the southern and eastern regions of the general San Francisco Bay Area of California in the counties of Santa Clara, Alameda, and Contra Costa. Our market includes the headquarters of a number of technology-based companies in the region commonly known as "Silicon Valley."

Our lending activities are diversified and include commercial, real estate, construction and land development, consumer and SBA guaranteed loans. We generally lend in markets where we have a physical presence through our branch offices and SBA loan production offices. We attract deposits throughout our market area with a customer-oriented product mix, competitive pricing, and convenient locations. We offer a wide range of deposit products for business banking and retail markets. We offer a multitude of other products and services to complement our lending and deposit services.

As a bank holding company, we are subject to the supervision of the Board of Governors of the Federal Reserve System (the "Federal Reserve"). We are required to file with the Federal Reserve reports and other information regarding our business operations and the business operations of our subsidiaries. As a California chartered bank, Heritage Bank of Commerce is subject to primary supervision, periodic examination, and regulation by the California Department of Financial Institutions ("DFI"), and by the Federal Reserve, as its primary federal regulator.

Our principal executive office is located at 150 Almaden Boulevard, San Jose, California 95113, telephone number: (408) 947-6900.

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The Offering

Maximum number of shares of Common Stock offered by the selling securityholders (in the case of the Series C Preferred Stock subject to anti-dilution adjustments)	14,398,992 shares of Common Stock issued upon conversion of the Series B Preferred Stock, and 5,601,000 shares of Common Stock underlying the 21,004 outstanding shares of Series C Preferred Stock.
Maximum number of shares of Series C Preferred Stock offered by the selling securityholders (subject to anti-dilution adjustments)	21,004 shares of Series C Preferred Stock issued by us to two of the selling securityholders on June 21, 2010.
Convertibility of Series C Preferred Stock into our Common Stock	Shares of Series C Preferred Stock will automatically convert into our Common Stock on the date of the transfer of the Series C Preferred Stock to a transferee unaffiliated with the holder in a widely dispersed offering. The term "widely dispersed offering" means a (i) widespread public distribution, including pursuant to a registration statement filed with and declared effective by the SEC or Rule 144 under the Securities Act, (ii) a transfer in which no transferee (or group of associated transferees) after giving effect to the transfer, would own more than 2% of any class of voting securities of the Company or (iii) a transfer to a transferee that controls or is acquiring control of more than 50% of the voting securities.
Use of Proceeds	All Securities sold pursuant to this prospectus will be sold by the selling securityholders. We will not receive any of the proceeds from such sales.
Risk Factors	An investment in our Securities is subject to risks. Please refer to the information contained under the caption "Risk Factors" and other information included or incorporated by reference in this prospectus for a discussion of factors you should carefully consider before investing in our Securities.
NASDAQ Global Select Market Symbol	"HTBK" Common Stock. The Series C Preferred Stock is not listed, and the Company does not intend to list the Series C Preferred Stock on any market.

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RISK FACTORS

Our business, financial condition and results of operations are subject to various risks, including those discussed below, and those set forth in Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the year ended December 31, 2010, which is incorporated herein by reference, which may affect the value of the Securities. Before making a decision to invest in the Securities, you should carefully consider the risks and uncertainties described below and the risks incorporated by reference in this prospectus, together with all of the other information included or incorporated by reference in this prospectus.

Risks Relating to our Securities

Our participation in the U.S. Treasury's Capital Purchase Program may pose certain risks to holders of our securities.

The Company sold to the U.S. Treasury 40,000 shares of Series A Fixed Rate Cumulative Perpetual Preferred Stock, no par value ("Series A Preferred Stock"), and a warrant to purchase 462,963 (which number of shares is not subject to increase as a result of our issuance of the Series B Preferred Stock and the Series C Preferred Stock) shares of the Company's Common Stock. Although the Company believes that its participation in the U.S. Treasury's Capital Purchase Program ("Capital Purchase Program") was in the best interests of its shareholders in that it enhanced our capital, it may pose certain risks to the holders of our Securities such as the following:

The warrant, if exercised, may be significantly dilutive to current common stockholders.

The warrant is immediately exercisable, thus the U.S. Treasury may at any time become a significant holder of the Company's Common Stock and possess significant voting power.

Although the Series A Preferred Stock issued to the U.S. Treasury is non-voting, the terms of the Capital Purchase Program stipulate that the U.S. Treasury may vote its senior equity in matters deemed by the U.S. Treasury to have an impact on its holdings.

Under the terms of the Capital Purchase Program, the Company must seek the approval of the U.S. Treasury for any increases in dividends paid to holders of our Common Stock as well as any repurchases of our Common Stock.

The U.S. Treasury may at any time change the terms of our participation in the Capital Purchase Program.

We have suspended payment on a total of six quarterly dividend payments on the Series A Preferred Stock, and, as a result, the U.S. Treasury will have the right to appoint two directors to our board of directors. Effective during the first quarter of 2011, and as of the date of this prospectus, the Company has not been advised whether the U.S. Treasury will exercise its rights to elect two members to the board of directors and, in the meantime, the U.S. Treasury has requested, and the Company has agreed to permit, an observer employed by the U.S. Treasury to attend meetings of the Company's board of directors.

We are unable to pay any dividends on our Common Stock unless we are current with our dividend payments on the Series A Preferred Stock.

Executive compensation rules for Capital Purchase Program participants may restrict our ability to hire or retain qualified senior executives officers and other key employees.

Our securities are not an insured deposit.

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Our securities are not bank deposits and, therefore, are not insured against loss by the Federal Deposit Insurance Corporation (FDIC), any other deposit insurance fund or by any other public or private entity. Investment in our securities is inherently risky for the reasons described in this section and

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elsewhere in this prospectus and is subject to the same market forces that affect the price of securities in any company. As a result, if you acquire our securities, you may lose some or all of your investment.

Federal and state law may limit the ability of another party to acquire us, which could cause the price of our securities to decline.

Federal law prohibits a person or group of persons "acting in concert" from acquiring "control" of a bank holding company unless the Federal Reserve has been given 60 days prior written notice of such proposed acquisition and within that time period the Federal Reserve has not issued a notice disapproving the proposed acquisition or extending for up to another 30 days the period during which such a disapproval may be issued. An acquisition may be made prior to the expiration of the disapproval period if the Federal Reserve issues written notice of its intent not to disapprove the action. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank or bank holding company with a class of securities registered under Section 12 of the Securities Exchange Act would, under the circumstances set forth in the presumption, constitute the acquisition of control. In addition, any "company" would be required to obtain the approval of the Federal Reserve under the Bank Holding Company Act of 1956, as amended, before acquiring 25% (5% in the case of an acquiror that is, or is deemed to be, a bank holding company) or more of any class of voting stock, or such lesser number of shares as may constitute control.

Under the California Financial Code, no person shall, directly or indirectly, acquire control of a California state bank or its holding company unless the DFI has approved such acquisition of control. A person would be deemed to have acquired control of Heritage Bank of Commerce if such person, directly or indirectly, has the power (i) to vote 25% or more of the voting power of Heritage Bank of Commerce or (ii) to direct or cause the direction of the management and policies of Heritage Bank of Commerce. For purposes of this law, a person who directly or indirectly owns or controls 10% or more of our outstanding Common Stock would be presumed to control Heritage Bank of Commerce.

These provisions of federal and state law may prevent a merger or acquisition that would be attractive to shareholders and could limit the price investors would be willing to pay in the future for our securities.

We may raise additional capital, which could have a dilutive effect on the existing holders of our securities and adversely affect the market price of our securities.

We are not restricted from issuing additional shares of Common Stock or securities that are convertible into or exchangeable for, or represent the right to receive shares of Common Stock. We frequently evaluate opportunities to access the capital markets taking into account our regulatory capital ratios, financial condition and other relevant considerations and, subject to market conditions, we may take further capital actions. Such actions could include, among other things, the issuance of additional shares of Common Stock or other securities in public or private transactions in order to further increase our capital levels above the requirements for a "well capitalized" institution established by the federal bank regulatory agencies as well as other regulatory targets. These issuances could dilute ownership interests of investors and could dilute the per share book value of our Common Stock.

Holders of our subordinated debt have rights that are senior to those of our common and preferred shareholders.

We have supported our continued growth through four issuances of trust preferred securities from four separate special purpose trusts and related issuance of subordinated debt to these trusts. At December 31, 2010, we had outstanding subordinated debt totaling \$23.7 million. Payments of the principal and interest on the subordinated debt are fully and unconditionally guaranteed by us. Further, the accompanying subordinated debt we issued to the special purpose trusts are senior to our outstanding shares of Common Stock and preferred stock. As a result, we must make payments on the subordinated debt before any dividends can be paid on our preferred stock or Common Stock and, in the event of our

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bankruptcy, dissolution or liquidation, the holders of the subordinated debt must be satisfied before any distributions can be made on our preferred stock or Common Stock. We have the right to defer interest payments on our subordinated debt (and the related trust preferred securities) for up to five years, during which time no cash dividends may be paid on our preferred stock or Common Stock. In November 2009, we exercised our right to defer the payment of interest on the subordinated debt and related trust preferred securities.

We are subject to a Written Agreement with the Federal Reserve Bank of San Francisco and the DFI that prohibits the payment of dividends without prior approval.

On February 17, 2010, we entered into a Written Agreement with the Federal Reserve Bank of San Francisco and the DFI ("Written Agreement"). The Written Agreement restricts the payment of dividends on Common Stock and preferred stock, and any payments on our trust preferred securities and related subordinated debt, any reductions in capital or the purchase or redemption of stock without the prior consent of the Federal Reserve Bank of San Francisco and the Director of the Division of Banking Supervision and Regulation of the Federal Reserve. We do not know when the Company will receive regulatory approval to pay dividends in the future.

Risks Relating to our Common Stock

The price of our Common Stock may fluctuate significantly, and this may make it difficult for you to resell shares of Common Stock owned by you at times or at prices you find attractive.

The stock market and, in particular, the market for financial institution stocks, have experienced significant volatility. In some cases, the markets have produced downward pressure on stock prices for certain issuers without regard to those issuers' underlying financial strength. As a result, the trading volume in our Common Stock may fluctuate more than usual and cause significant price variations to occur. This may make it difficult for you to resell shares of Common Stock owned by you at times or at prices you find attractive.

The trading price of the shares of our Common Stock will depend on many factors, which may change from time to time and which may be beyond our control, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales or offerings of our equity or equity related securities, and other factors identified above under "Cautionary Note Regarding Forward-Looking Statements," "Risk Factors" and below. These broad market fluctuations have adversely affected and may continue to adversely affect the market price of our Common Stock. Among the factors that could affect our stock price are:

actual or anticipated quarterly fluctuations in our operating results and financial condition;

changes in financial estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to our Common Stock or those of other financial institutions;

failure to meet analysts' revenue or earnings estimates;

speculation in the press or investment community generally or relating to our reputation, our operations, our market area, our competitors or the financial services industry in general;

strategic actions by us or our competitors, such as acquisitions, restructurings, dispositions or financings;

actions by our current shareholders, including sales of Common Stock by existing shareholders and/or directors and executive officers;

trends in our nonperforming assets;

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the costs and effectiveness of our efforts to reduce our classified assets;

fluctuations in the stock price and operating results of our competitors;

future sales of our equity, equity-related or debt securities;

proposed or adopted regulatory changes or developments;

anticipated or pending investigations, proceedings, or litigation that involve or affect us;

trading activities in our Common Stock, including short-selling;

domestic and international economic factors unrelated to our performance; and

general market conditions and, in particular, developments related to market conditions for the financial services industry.

Our Common Stock is listed for trading on the NASDAQ Global Select Market under the symbol "HTBK". The trading volume has historically been significantly less than that of larger financial services companies. Stock price volatility may make it more difficult for you to sell your Common Stock when you want and at prices you find attractive.

A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our Common Stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the relatively low trading volume of our Common Stock, significant sales of our Common Stock in the public market, or the perception that those sales may occur, could cause the trading price of our Common Stock to decline or to be lower than it otherwise might be in the absence of those sales or perceptions.

Our outstanding preferred stock impacts net income allocable to our common shareholders and earnings per common share, and conversion of our Series C Preferred Stock or exercise of the warrant issued to the U.S. Treasury will be dilutive to holders of our Common Stock.

The dividends declared and the accretion on our outstanding preferred stock reduce the net income available to common shareholders and our earnings per common share. Our preferred stock will also receive preferential treatment in the event of our liquidation, dissolution or winding up.

The ownership interest of the existing holders of our Common Stock will be diluted to the extent the warrant issued to the U.S. Treasury is exercised. The shares of Common Stock underlying the warrant represent approximately 2% of the shares of our Common Stock outstanding as of March 1, 2011. Although the U.S. Treasury has agreed to not vote any of the Common Shares it receives upon exercise of the warrant, a transferee of any portion of the warrant or of any common shares acquired upon exercise of the warrant is not bound by this restriction. The terms of the warrant include an anti-dilution adjustment which provides that, if we issue common shares or securities convertible or exercisable into, or exchangeable for, common shares at a price that is less than 90% of the market price of such shares on the last trading day preceding the date of the agreement to sell such shares, the number of common shares to be issued would increase and the per share price of common shares to be purchased pursuant to the warrant would decrease.

Additionally, we have 21,004 shares of Series C Preferred Stock outstanding. The ownership interest of our existing holders of Common Stock will be diluted to the extent the Series C Preferred Stock is automatically converted into Common Stock. The Series C Preferred Stock is convertible into an aggregate of 5,601,000 shares of our Common Stock upon a transfer of the Series C Preferred Stock to a transferee not affiliated with the holder in a widely dispersed offering. The shares of Common Stock underlying the Series C Preferred Stock represent approximately 21% of the shares of our common stock outstanding on March 1, 2011.

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The issuance of additional shares of preferred stock could adversely affect holders of Common Stock, which may negatively impact your investment in our securities.

Our board of directors is authorized to issue additional classes or series of preferred stock without any action on the part of the shareholders, except in certain circumstances. Our board of directors also has the power, without shareholder approval except in certain circumstances, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights and preferences over the Common Stock with respect to dividends or upon the liquidation, dissolution or winding up of our business and other terms. If we issue preferred stock in the future that has a preference over the Common Stock with respect to the payment of dividends or upon liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of the Common Stock, then the rights of holders of the Common Stock or the market price of the Common Stock could be adversely affected. A decline in the market price of our Common Stock may negatively impact the price for the Series C Preferred Stock.

Risks Related to the Series C Preferred Stock

The Series C Preferred Stock will convert into Common Stock only in limited circumstances.

Shares of Series C Preferred Stock will convert automatically into our Common Stock only following the transfer of the Series C Preferred Stock to a transferee unaffiliated with the holder in a widely dispersed offering. The term "widely dispersed offering" means a (i) widespread public distribution, including pursuant to a registration statement filed with and declared effective by the SEC or Rule 144 under the Securities Act, (ii) a transfer in which no transferee (or group of associated transferees) after giving effect to the transfer, would own more than 2% of any class of voting securities of the Company or (iii) a transfer to a transferee that controls or is acquiring control of more than 50% of the voting securities.

You may not receive dividends on the Series C Preferred Stock.

Dividends are payable on the Series C Preferred Stock on an as converted basis if and only to the extent dividends are paid on our Common Stock. We have suspended payment of dividends on our Common Stock and Series A Preferred Stock and are currently prohibited from paying dividends on our Common Stock and the Series A Preferred Stock, and Series C Preferred Stock because of our Written Agreement with our regulators. We may not pay dividends on the shares of Series C Preferred Stock absent the prior written approval of the Federal Reserve Bank of San Francisco and the Director of the Division of Banking Supervision and Regulation of the Federal Reserve and only if we are current on the payment of our interest on our outstanding trust preferred and related subordinated debt and the payment of dividends on our Series A Preferred Stock.

The Series C Preferred Stock is equity and is subordinate to our existing and future indebtedness.

Our Series C Preferred Stock is an equity interest and does not constitute indebtedness. As such, our Series C Preferred Stock will rank junior to all indebtedness, including our subordinated debt issued in connection with our trust preferred securities, and other non-equity claims with respect to assets available to satisfy claims, including in a liquidation.

The Series C Preferred Stock is a new series of securities and an active trading market may not develop for it.

There is no public market for the Series C Preferred Stock, and we have no plans to list the Series C Preferred Stock on any securities exchange. There is no guarantee that a secondary trading market will develop or, if such a market does develop, that it would provide sufficient liquidity to allow you to trade

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and sell shares of Series C Preferred Stock easily. The liquidity of any market for the Series C Preferred Stock will depend on a number of factors, including but not limited to:

the number of shares of Series C Preferred Stock, if any, that investors purchase in this offering;

the number of shares of Series C Preferred Stock that the selling securityholders elect to sell in this offering;

the number of holders of the Series C Preferred Stock;

our performance;

the market for similar securities; and

the market price of our Common Stock.

The market price of the Series C Preferred Stock will be directly affected by the market price of our Common Stock, which may be volatile, and this may make it difficult for you to resell Series C Preferred Stock at times or at prices you find attractive.

To the extent that a secondary market for the Series C Preferred Stock develops, we believe that the market price of the Series C Preferred Stock will be significantly affected by the market price of our Common Stock. We cannot predict how our Common Stock will trade in the future as many factors could affect the market price of our Common Stock.

The Series C Preferred Stock has limited voting rights.

Holders of the Series C Preferred Stock will not have any voting rights, including the right to elect any directors, other than limited voting rights with respect to matters significantly and adversely affecting the rights and privileges of the Series C Preferred Stock.

Holders of shares of Series C Preferred Stock will have no rights as holders of our Common Stock until they acquire the Common Stock upon conversion of the Series C Preferred Stock.

Until holders of the Series C Preferred Stock acquire Common Stock upon conversion of or as a dividend on the Series C Preferred Stock, such holders will have no rights with respect to our Common Stock, including voting rights (except as described under "Description of Capital Stock Series C Preferred Stock Voting Rights" and as required by applicable California law) and rights to receive any dividends or other distributions on our Common Stock. Upon conversion of, or receipt of Common Stock as a dividend on, the Series C Preferred Stock, holders of the Series C Preferred Stock will be entitled to exercise the rights of a holder of Common Stock only as to matters for which the record date occurs on or after the conversion date.

Table of Contents**PRICE RANGE OF COMMON STOCK**

Our Common Stock is listed and traded on the NASDAQ Global Select Market under the symbol "HTBK." The following table sets forth, for the quarters shown, the range of high and low closing sales prices of our Common Stock on the NASDAQ Global Select Market and the cash dividends declared on the Common Stock. As of March 1, 2011, we had 26,233,001 shares of Common Stock outstanding, held of record by approximately 700 shareholders.

Quarter	Stock Price		Dividend Per Share
	High	Low	
Year ended December 31, 2010			
Fourth quarter	\$ 4.50	\$ 3.49	
Third quarter	\$ 3.77	\$ 3.36	
Second quarter	\$ 5.83	\$ 3.55	
First quarter	\$ 4.48	\$ 3.40	
Year ended December 31, 2009:			
Fourth quarter	\$ 4.64	\$ 2.50	
Third quarter	\$ 5.75	\$ 2.99	
Second quarter	\$ 8.66	\$ 3.61	
First quarter	\$ 11.75	\$ 3.75	\$ 0.02

DIVIDEND POLICY

Under the Written Agreement we are required to obtain the prior approval of the Federal Reserve Bank of San Francisco and the Director of the Division of Banking Supervision and Regulation of the Federal Reserve to make any interest payments on our outstanding trust preferred securities and related subordinate debt, or to pay any dividends on our Common Stock or preferred stock.

The amount of future dividends will depend upon our earnings, financial condition, capital requirements and other factors, and will be determined by our board of directors on a quarterly basis. It is Federal Reserve policy that bank holding companies generally pay dividends on Common Stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also Federal Reserve policy that bank holding companies not maintain dividend levels that undermine the holding company's ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. Under the federal Prompt Corrective Action regulations, the Federal Reserve or the FDIC may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as undercapitalized.

As a holding company, our ability to pay cash dividends is affected by the ability of our bank subsidiary, Heritage Bank of Commerce, to pay cash dividends. The ability of Heritage Bank of Commerce (and our ability) to pay cash dividends in the future and the amount of any such cash dividends is and could be in the future further influenced by bank regulatory requirements and approvals and capital guidelines. Our ability to pay cash dividends is further subject to restrictions set forth in the California General Corporation Law (the "CGCL"). The CGCL provides that a corporation may make a distribution to its shareholders if the corporation's retained earnings equal at least the amount of the proposed distribution. The CGCL further provides that, in the event sufficient retained earnings are not available for the proposed distribution, a corporation may nevertheless make a distribution to its shareholders if, after giving effect to the distribution, it meets two conditions, which generally stated are as follows: (i) the corporation's assets must equal at least 125% of its liabilities and (ii) the corporation's current assets must

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equal at least its current liabilities or, if the average of the corporation's earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of the corporation's interest expense for those fiscal years, then the corporation's current assets must equal at least 125% of its current liabilities.

Funds for payment of any cash dividends by the Company would be obtained from its investments as well as dividends from Heritage Bank of Commerce. As a California banking corporation, the ability of Heritage Bank of Commerce to pay cash dividends is subject to restrictions set forth in the California Financial Code (the "Financial Code"). The Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lesser of (i) the bank's retained earnings or (ii) the bank's net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the shareholders of the bank during such period. However, a bank may, with the approval of the DFI, make a distribution to its shareholders in an amount not exceeding the greater of (i) its retained earnings, (ii) its net income for its last fiscal year or (iii) its net income for its current fiscal year. In the event that the DFI determines that the shareholders' equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the Commissioner may order the bank to refrain from making a proposed distribution.

Under the terms of the Capital Purchase Program, for so long as any preferred stock issued under the Capital Purchase Program remains outstanding, we are prohibited from increasing quarterly dividends on our Common Stock in excess of \$0.08 per share, and from making certain repurchases of equity securities, including our Common Stock, without the U.S. Treasury's consent until the third anniversary of the U.S. Treasury investment or until the U.S. Treasury has transferred all of the Series A Preferred Stock it purchased to third parties. As long as the Series A Preferred Stock is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including our Common Stock and the Series C Preferred Stock, are also prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions. On November 6, 2009, we suspended dividend payments on our Series A Preferred Stock. So long as dividends on the Series A Preferred Stock remain suspended, we may not, among other things and with limited exceptions, pay cash dividends on or repurchase our Common Stock or preferred stock.

We have supported our growth through the issuance of trust preferred securities from special purpose trusts and accompanying sales of subordinated debt to these trusts. The subordinated debt that we issued to the trusts is senior to our shares of Common Stock, Series A Preferred Stock and Series C Preferred Stock. As a result, we must make payments on the subordinated debt before any dividends can be paid on our Common Stock, Series A Preferred Stock and Series C Preferred Stock. Under the terms of the subordinated debt, we may defer interest payments for up to five years. On November 6, 2009, we exercised our right to defer regularly scheduled interest payments on our outstanding \$23.7 million of subordinated debt relating to our trust preferred securities. So long as interest payments remain deferred, we may not pay cash dividends on or repurchase our Common Stock or preferred stock.

At such time as we become current with the dividends payable on the Series A Preferred Stock and interest payments on our trust preferred securities and related subordinated debt, the decision whether to pay dividends will be made by our board of directors in light of conditions then existing, including factors such as our results of operations, financial condition, business conditions, regulatory capital requirements and covenants under any applicable contractual arrangements, including agreements with regulatory authorities.

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SUMMARY OF THE UNDERLYING TRANSACTIONS

We entered into a securities purchase agreement, dated June 18, 2010, with various investors, pursuant to which the investors invested an aggregate of \$75 million in cash in us through direct purchases of newly issued shares of Series B Preferred Stock and Series C Preferred Stock. On June 21, 2010, we issued to the investors the following securities:

an aggregate of 53,996 shares of Series B Preferred Stock, each of which would automatically convert into an aggregate of 14,398,992 shares of our Common Stock based on the initial conversion price of \$3.75, upon receipt of shareholder approval of the issuance of Common Stock upon the conversion; and

to two investors, an aggregate of 21,004 shares of Series C Preferred Stock, each of which will automatically convert into an aggregate of 5,601,000 shares of our Common Stock based on the initial conversion price of \$3.75, upon receipt of the shareholder approval of the issuance of Common Stock upon the conversion, and the subsequent transfer of the Series C Preferred Stock to third parties not affiliated with the holder in a widely dispersed offering.

At the Company's Special Meeting of Shareholders held on September 15, 2010, the Company's shareholders approved the issuance of Common Stock upon the conversion of the Series B Preferred Stock and upon the conversion of the Series C Preferred Stock as required by The NASDAQ Stock Market and California corporate law. As a result, on September 16, 2010, the Series B Preferred Stock was converted into 14,398,992 shares of Common Stock of the Company and the shares of Series B Preferred Stock ceased to be outstanding. The Series C Preferred Stock remains outstanding until it has been converted into Common Stock in accordance with its terms.

USE OF PROCEEDS

All Securities sold pursuant to this prospectus will be offered and sold by the selling securityholders. We will not receive any of the proceeds from such sales.

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SELLING SECURITYHOLDERS

When we refer to the "selling securityholders" in this prospectus we mean the persons listed in the table below. The selling securityholders may from time to time offer and sell any or all of the Securities set forth below pursuant to this prospectus.

The selling securityholders initially acquired the Securities covered by this prospectus on June 21, 2010, at the closing of the June 2010 Private Placement described above under "Summary of the Underlying Transactions." The selling securityholders may, at any time and from time to time, offer and sell pursuant to this prospectus any or all of the Securities in any type of transaction as more fully described in "Plan of Distribution."

Except as set forth herein and other than with respect to the acquisition of the Securities from us, none of the selling securityholders has, or within the past three years has had, any position, office, or other material relationship with us.

Securities Covered by this Prospectus Held by Selling Securityholders

The following table sets forth a list of the selling securityholders and their ownership of Securities to be offered pursuant to this prospectus. All percentages are based on the 31,834,001 shares of Common Stock that will be outstanding assuming the full conversion of the Series C Preferred Stock (before any adjustment in the conversion ratios).

We do not know when or in what amounts the selling securityholders may offer Securities for sale. It is possible that the selling securityholders will not sell any or all of the Securities offered under this prospectus. Because the selling securityholders may offer all or some of the Securities pursuant to this prospectus, and because we have been advised that there are currently no agreements, arrangements or understandings with respect to the sale of any such Securities, we cannot estimate the number of Securities that will be held by the selling securityholders after completion of the offering. For purposes of the table below, we have assumed that selling securityholders would sell all of the Securities held by them covered by this prospectus and, therefore, would hold no Securities following the offering and hold zero percentage of the Securities following the offering, other than shares of Common Stock that certain selling securityholders informed us they acquired independently of the June 2010 Private Placement and are not including for resale in this offering. Except as stated in the footnotes, each Selling Securityholder has requested that their full allotment of Securities be registered for resale in this offering.

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The information set forth below is based on information provided by the selling securityholders.

Name of Selling Securityholder	Shares	Maximum	Shares	Percentage
	of Series C Preferred Stock owned pre-offering	Shares of Common Stock beneficially owned pre-offering(1)	shares of Series C Preferred Stock to be offered	of Series C Preferred Stock owned Post Offering(3)
Consector Partners LP		491,033	491,033	0%
John Hancock Regional Bank Fund		712,266	712,266	0%
John Hancock Bank and Thrift Opportunity Fund		387,733	387,733	0%
JCSD Partners L.P.		450,000	450,000	0%
Adakin Capital, LLC		450,000	450,000	0%
J.S. Kelly, LLC		450,000		
26,282				
23,384				
25,765				
Research expenses				
2,287				
2,734				
2,542				
2,753				
29,625				
29,016				
25,926				
28,518				
Operating profit before manufacturing facility closures, restructuring and other related charges				

15,229

22,786

15,170

17,274

Manufacturing facility closures, restructuring and other related charges

6,329

2,090

1,733

2,683

Operating profit

8,900

20,696

13,437

14,591

Finance costs

Interest

1,158

1,022

982

1,036

Other expense (income), net

270

411

(91
)

504

1,428

1,433

891

1,540

Earnings before income tax expense (benefit)

7,472

19,263

12,546

13,051

Income tax expense (benefit)

Current

30

3,197

2,076

2,592

Deferred

1,192

2,408

940

(7,033
)

1,222

5,605

3,016

(4,441
)

Net earnings

6,250

13,658

9,530

17,492

IPG Net Earnings

6,250

13,658

9,530

17,492

Non-controlling interests

—

—

—

—

6,250

13,658

9,530

17,492

IPG Net Earnings per share

Basic

0.11

0.23

0.16

0.30

Diluted

0.10

0.22

0.16

0.29

Weighted average number of common shares outstanding

Basic

58,696,647

58,657,691

58,655,667

58,802,897

Diluted

60,870,914

60,834,393

60,035,667

60,316,201

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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 10, 2017, 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, 2017 and 2016 ("Financial Statements"). It should also be read together with the text below on forward-looking statements in the section entitled "Forward-Looking Statements".

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

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

Overview

The Company reported a 17.9% increase in revenue for the third quarter of 2017 compared to the third quarter of 2016 and a 10.3% increase in revenue for the first nine months of 2017 compared to the same period in 2016. The increase in revenue for the third quarter of 2017 compared to the third quarter of 2016 was primarily due to additional revenue from the Cantech and Powerband Acquisitions⁽¹⁾, an increase in average selling price, including the impact of product mix, and an increase in sales volume from certain tape products. The increase in revenue for the first nine months of 2017 compared to the same period in 2016 was primarily due to additional revenue from the Powerband and Cantech Acquisitions and an increase in average selling price, including the impact of product mix.

Gross margin decreased to 20.9% in the third quarter of 2017 compared to 21.7% in the third quarter of 2016 primarily due to the dilutive impact of the Cantech Acquisition resulting mainly from non-cash purchase price accounting adjustments and certain manufacturing production inefficiencies occurring mainly in older facilities. These unfavourable items were partially offset by the favourable impact of the Company's manufacturing cost reduction programs. Gross margin decreased to 22.3% in the first nine months of 2017 compared to 23.0% for the same period in 2016 primarily due to stronger manufacturing capacity utilization in the first nine months of 2016 and the dilutive impact of the Cantech Acquisition resulting mainly from non-cash purchase price accounting adjustments. These unfavourable items were partially offset by the favourable impact of the Company's manufacturing cost reduction programs.

Net earnings attributable to Company shareholders ("IPG Net Earnings") for the third quarter of 2017 increased to \$19.2 million (\$0.33 basic earnings per share and \$0.32 diluted earnings per share) from \$6.3 million for the third quarter of 2016 (\$0.11 basic earnings per share and \$0.10 diluted earnings per share). The increase was primarily due to (i) a decrease in selling, general and administrative expenses ("SG&A") mainly due to a decrease in share-based compensation driven primarily by the positive net earnings impact of the decrease in fair value of cash-settled awards, (ii) a decrease in manufacturing facility closures, restructuring and other related charges mainly related to the South Carolina Flood⁽²⁾ in 2016, and (iii) an increase in gross profit. These favourable impacts were partially offset by an increase in income tax expense.

IPG Net Earnings for the first nine months of 2017 increased to \$42.9 million (\$0.73 basic earnings per share and \$0.72 diluted earnings per share) from \$29.4 million for the same period in 2016 (\$0.50 basic earnings per share and \$0.49 diluted earnings per share). The increase was primarily due to an increase in gross profit, a decrease in

manufacturing facility closures, restructuring and other related charges mainly related to the South Carolina Flood in 2016, and a decrease in SG&A, partially offset by an increase in income tax expense. The decrease in SG&A was primarily due to a decrease in share-based compensation driven primarily by the positive net earnings impact of the decrease in fair value of cash-settled awards, partially offset by additional SG&A from the Powerband and Cantech Acquisitions, and an increase in M&A Costs (defined later this document) included in SG&A.

Adjusted EBITDA is a non-GAAP financial measure defined and reconciled to net earnings, the most directly comparable GAAP financial measure, later in this document (please see the "Non-GAAP Financial Measures", "EBITDA and Adjusted EBITDA", and "EBITDA and Adjusted EBITDA Reconciliation to Net Earnings" sections below). The Company includes adjusted EBITDA

in this MD&A because it believes it improves the period-to-period comparability of the Company's results and provides investors with more insight into, and an additional tool to understand and assess, the performance of the Company's ongoing core business operations. Adjusted EBITDA excludes costs that are not considered by management to be representative of the Company's underlying core operating performance, including certain non-operating expenses, non-cash expenses and non-recurring expenses. The Company has modified its definition of adjusted EBITDA to also exclude 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"). Prior period amounts have been conformed to the new definition of adjusted EBITDA.

Adjusted EBITDA for the third quarter of 2017 increased to \$32.4 million from \$28.0 million for the third quarter of 2016. The increase in adjusted EBITDA was primarily due to an increase in gross profit and additional adjusted EBITDA from the Powerband and Cantech Acquisitions, partially offset by an increase in variable compensation resulting from an improvement in expected operating results.

Adjusted EBITDA for the first nine months of 2017 increased to \$93.9 million from \$86.4 million for the same period in 2016. The increase in adjusted EBITDA was primarily due to an increase in gross profit and additional adjusted EBITDA from the Powerband and Cantech Acquisitions, partially offset by an increase in employee related costs to support growth initiatives in the business.

The Midland, North Carolina manufacturing facility began commissioning production lines in the third quarter of 2017 and is ramping up to full capacity in the fourth quarter of 2017 as planned. Capital expenditures for this project since inception totalled \$46.1 million as of September 30, 2017 of which \$28.0 million has been incurred in the first nine months of 2017. The total capital expenditures incurred are within the Company's previous guidance of \$44 to \$49 million and are not expected to increase materially in the fourth quarter of 2017. The Company continues to expect to achieve an after-tax return of at least 15% on this project. As a result of the success of this project to date and the Company's expectation of further demand growth in water-activated tapes, the Company has also begun an initiative to further expand capacity at the Midland, North Carolina manufacturing facility which is expected to be completed by the beginning of 2019 for an expected, additional investment of \$13.5 million.

On November 10, 2017, the Board of Directors declared a quarterly cash dividend of \$0.14 per common share payable on December 29, 2017 to shareholders of record at the close of business on December 15, 2017.

As of November 10, 2017, the Company has repurchased and cancelled 487,300 common shares under its normal course issuer bid ("NCIB") for a total purchase price of approximately \$7 million.

- "Powerband Acquisition" refers to the acquisition by the Company of 74% of Powerband Industries Private Limited (doing business as "Powerband") on September 16, 2016. "Cantech Acquisition" refers to the acquisition by the
- (1) Company of substantially all of the assets of Canadian Technical Tape Ltd. (doing business as "Cantech"), which includes the shares of Cantech Industries Inc., Cantech's US subsidiary, on July 1, 2017.
 - (2) "South Carolina Flood" refers to significant rainfall and subsequent severe flooding on October 4, 2015 that resulted in considerable damage to and the permanent closure of the Columbia, South Carolina manufacturing facility eight to nine months in advance of the planned shut down. "South Carolina Flood Insurance Proceeds" refers to insurance claim settlement proceeds totalling \$29.5 million, net of a \$0.5 million deductible, covering most of the claimed losses associated with the South Carolina Flood. The Company recorded proceeds as a benefit in manufacturing facility closures, restructuring and other related charges totalling \$5.0 million, \$0.5 million and \$9.3 million in the fourth quarter of 2015, second and fourth quarters of 2016, respectively, and as a benefit in cost of sales totalling \$4.5 million, \$8.1 million, and \$2.1 million in the second and fourth quarters of 2016 and the first quarter of 2017, respectively. "South Carolina Project" refers to the 2013 announcement of the relocation and modernization of the Company's Columbia, South Carolina manufacturing operation. This project primarily involved moving the Company's duct tape and masking tape production to a new state-of-the-art facility in Blythewood, South Carolina

as well as moving flatback tape production to the Company's existing facility in Marysville, Michigan.

Outlook

The Company's expectations for the fiscal year and fourth quarter of 2017 are as follows:

Fiscal year 2017 gross margin is now expected to be between 22% to 22.5%, which is lower than the previously stated range of 22.5% to 23%, due primarily to the impact of non-cash purchase price accounting adjustments related to the Cantech Acquisition.

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Fiscal year 2017 adjusted EBITDA has been revised to be between \$126 to \$130 million from the previously stated range of \$120 to \$127 million, to reflect the new definition of adjusted EBITDA which excludes M&A Costs. These M&A Costs totalled \$5.3 million in the first nine months of 2017.

As a result of strong year-to-date performance in the Company's manufacturing cost reduction program, fiscal year 2017 manufacturing cost reductions are now expected to exceed the previously stated range of \$10 to \$12 million. Due primarily to the progress on the Capstone Greenfield Project (defined later in this document), fiscal year 2017 capital expenditures are now expected to be between \$85 and \$90 million, an increase from the previously stated range of \$75 to \$85 million.

The effective tax rate for 2017 is still expected to be 25% to 30%, however, given the current mix of earnings between jurisdictions, cash taxes paid in 2017 are now expected to be approximately a third of the income tax expense in 2017 (previously expected to be approximately half), excluding the potential impact of any significant tax reform legislation and further changes in the mix of earnings between jurisdictions.

Revenue in the fourth quarter of 2017 is expected to be greater than in the fourth quarter of 2016.

Gross margin in the fourth quarter of 2017 is expected to be greater than in the fourth quarter of 2016, excluding the positive impact of the South Carolina Flood Insurance Proceeds in the fourth quarter of 2016.

Adjusted EBITDA in the fourth quarter of 2017 is expected to be greater than in the fourth quarter of 2016, excluding the positive impact of the South Carolina Flood Insurance Proceeds in the fourth quarter of 2016. Adjusted EBITDA in the fourth quarter of 2016 has been revised to \$35.6 million, to reflect the new definition of adjusted EBITDA which excludes M&A costs. These M&A Costs totalled \$0.3 million in the fourth quarter of 2016.

Cantech Acquisition

On July 1, 2017, the Company acquired substantially all of the assets of Cantech, a privately-owned North American supplier of industrial and specialty tapes based in Montreal, Quebec for an aggregate purchase price of approximately \$67 million, net of cash acquired and subject to a post-closing working capital adjustment. Cantech unaudited revenues for the twelve months ended March 31, 2017 were estimated at \$61 million. The purchase price was financed with funds available under the Revolving Credit Facility (defined later in this document). The Cantech Acquisition is expected to further enhance and extend the Company's product offering, and provide additional distribution channels for the Company's products in Canada, the US and Europe.

The impact of the Cantech Acquisition on the Company's earnings was as follows (in millions of US dollars, unaudited):

	Three months ended September 30, 2017	July 1, 2017 through September 30, 2017
	\$	\$
Revenue	15.9	15.9
IPG Net Earnings (Loss)	(0.8)	(0.8)

The Cantech Acquisition contributed a loss of \$0.8 million to IPG Net Earnings in the third quarter of 2017 primarily due to non-cash purchase price accounting adjustments. The integration process, although in its early stages, is currently proceeding as planned.

Capstone Partnership

On June 23, 2017, as one of the initial steps in the establishment of the partnership in Capstone Polyweave Private Limited, a newly-formed enterprise in India (doing business as “Capstone”), the Company purchased substantially all of the issued and outstanding shares of Capstone (“Capstone Partnership”) for cash consideration of \$5.1 million, funded primarily from the Revolving Credit Facility. The principal purpose of the Capstone Partnership is to provide the Company with a globally-competitive supply of certain woven products in order to better service and grow the Company’s woven products business. The Company’s investment in Capstone is intended to reinforce its strategic position in woven products through vertical integration. The Company expects to achieve attractive synergies both in terms of higher profitability on the Company’s current woven products sales volume and additional revenue opportunities as a result of an improved competitive position in the woven products market.

The Company is partnering with the non-controlling shareholders of Capstone, who are also the shareholders and operators of Airtrax Polymers Private Limited (doing business as “Airtrax”). Airtrax manufactures and sells woven products that are used in various applications, including applications in the building and construction industry. The Company has agreed to maintain a minimum 55% interest in Capstone for total cash consideration of approximately \$13 million, which is being financed with funds available under the Revolving Credit Facility. The shareholders of Airtrax have agreed to arrange a contribution in kind to Capstone of the net assets attributed to Airtrax’s existing woven product manufacturing operations, which are estimated to have a value of approximately \$12 million. The legal process to make the contribution of the net assets has begun and is expected to be completed in the first half of 2018. The Company is making payments in several tranches over the same period. Airtrax’s unaudited revenues for the twelve months ended March 31, 2017 were approximately \$11 million.

On July 19, 2017, the non-controlling shareholders of Capstone acquired additional shares of Capstone for a purchase price of approximately \$0.2 million.

On August 8, 2017, the Company purchased additional shares of Capstone for a purchase price of \$5.1 million funded primarily from the Revolving Credit Facility.

The majority of the Company’s total expected cash consideration of approximately \$13 million is expected to be used by Capstone to partially finance the construction of a greenfield manufacturing facility which is expected to cost approximately \$30 million (“Capstone Greenfield Project”). The remaining balance is expected to be financed utilizing debt. The purpose of the Capstone Greenfield Project is to create new capacity in Capstone in order to produce woven products primarily for the Company’s global distribution. The Capstone Greenfield Project has begun and commercial operations are expected to commence in the first half of 2019. The Company expects an after-tax internal rate of return in excess of the Company’s after-tax hurdle rate of 15% on the Capstone Greenfield Project.

Powerband Acquisition

As part of the Powerband Acquisition in 2016, the Company entered into various option agreements with the non-controlling shareholders for the transfer of Powerband shares under certain limited circumstances. On July 4, 2017, the Company and the non-controlling shareholders of Powerband executed a binding term sheet that confirmed that the Company’s call option on all of the shares owned by the non-controlling shareholders had been triggered and substantially reaffirmed the exit terms of the shareholders’ agreement executed between the parties on September 2, 2016. As of November 10, 2017, no shares have been purchased by the Company under this agreement as the parties continue to work through the exit provisions stipulated in the term sheet. The Company continues to prepare for the upcoming exit by the non-controlling shareholders including through the appointment of a local senior management team to succeed the non-controlling shareholders, who were also operating the business, following the completion of this transaction. The Powerband Investment Project⁽¹⁾ is currently proceeding as planned, however, in light of this transition, the Company may reevaluate the scope and timeline for this project.

(1) “Powerband Investment Project” refers to plans to expand capacity by investing in the construction of a greenfield manufacturing facility in India.

Results of Operations

Revenue

Revenue for the third quarter of 2017 totalled \$243.4 million, a \$36.9 million or 17.9% increase from \$206.6 million for the third quarter of 2016 primarily due to:

• Additional revenue of \$22.4 million from the Cantech and Powerband Acquisitions;

• An increase in average selling price, including the impact of product mix, of approximately 4.5% which had a favourable impact of approximately \$9.3 million primarily due to a favourable product mix in the tape and film product categories; and

• An increase in sales volume of approximately 1.9% or \$3.9 million mainly from certain tape products. The Company believes that the increased sales volume was primarily due to increased demand for carton sealing tape product offerings.

Revenue for the third quarter of 2017 totalled \$243.4 million, a \$33.3 million or 15.8% increase from \$210.2 million for the second quarter of 2017 primarily due to:

• Additional revenue of \$15.9 million from the Cantech Acquisition;

• An increase in sales volume of approximately 4.1% or \$8.6 million primarily due to an increase in demand for certain tape products that the Company believes was mainly due to seasonality in customer demand; and

• An increase in average selling price, including the impact of product mix, of approximately 4.0% which had a favourable impact of approximately \$8.4 million primarily due to a favourable product mix in the film and tape product categories.

Revenue for the first nine months of 2017 totalled \$660.7 million, a \$61.8 million or 10.3% increase from \$598.9 million for the same period in 2016 primarily due to:

• Additional revenue of \$34.9 million from the Powerband and Cantech Acquisitions; and

• An increase in average selling price, including the impact of product mix, of approximately 3.8% which had a favourable impact of approximately \$22.9 million primarily due to a favourable product mix in the tape and film product categories.

Gross Profit and Gross Margin

Gross profit totalled \$50.9 million for the third quarter of 2017, a \$6.0 million or 13.4% increase from \$44.9 million for the third quarter of 2016. Gross margin was 20.9% in the third quarter of 2017 and 21.7% in the third quarter of 2016.

Gross profit increased primarily due to a favourable product mix variance, the favourable impact of the Company's manufacturing cost reduction programs and additional gross profit from the Cantech and Powerband Acquisitions. These favourable items were partially offset by certain manufacturing production inefficiencies occurring mainly in older facilities.

Gross margin decreased primarily due to the dilutive impact of the Cantech Acquisition resulting mainly from non-cash purchase price accounting adjustments and certain manufacturing production inefficiencies occurring mainly in older facilities. These unfavourable items were partially offset by the favourable impact of the Company's manufacturing cost reduction programs.

Gross profit totalled \$50.9 million for the third quarter of 2017, a \$3.5 million or 7.4% increase from \$47.4 million for the second quarter of 2017. Gross margin was 20.9% in the third quarter of 2017 and 22.5% in the second quarter of 2017.

• Gross profit increased primarily due to an increase in sales volume and additional gross profit from the Powerband and Cantech Acquisitions.

Gross margin decreased primarily due to the dilutive impact of the Cantech Acquisition resulting mainly from non-cash purchase price accounting adjustments.

Gross profit totalled \$147.4 million for the first nine months of 2017, a \$9.6 million or 7% increase from \$137.8 million for the same period in 2016. Gross margin was 22.3% in the first nine months of 2017 and 23.0% for the same period in 2016.

Gross profit increased primarily due to the favourable impact of the Company's manufacturing cost reduction programs, the non-recurrence of certain unfavourable impacts of the South Carolina Flood, and additional gross profit from the Cantech and Powerband Acquisitions. These favourable items were partially offset by stronger manufacturing capacity utilization in the first nine months of 2016 and a reduction in the South Carolina Flood Insurance Proceeds from \$4.5 million recorded in the first nine months of 2016 to \$2.1 million recorded in the first nine months of 2017.

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Gross margin decreased primarily due to stronger manufacturing capacity utilization in the first nine months of 2016 and the dilutive impact of the Cantech Acquisition resulting mainly from non-cash purchase price accounting adjustments. These unfavourable items were partially offset by the favourable impact of the Company's manufacturing cost reduction programs.

Selling, General and Administrative Expenses

SG&A for the third quarter of 2017 totalled \$18.8 million, an \$8.6 million or 31.3% decrease from \$27.3 million for the third quarter of 2016. The decrease was primarily due to a decrease in share-based compensation of \$10.7 million driven primarily by the decrease in fair value of cash-settled awards and the non-recurrence of a provision for the settlement of the outstanding litigation with the Company's former Chief Financial Officer ("CFO") recorded in the third quarter of 2016 ("Litigation Settlement"). These decreases were partially offset by additional SG&A from the Cantech and Powerband Acquisitions and an increase in variable compensation resulting from an improvement in expected operating results.

SG&A for the third quarter of 2017 decreased \$9.9 million or 34.6% from \$28.7 million in the second quarter of 2017. The decrease was primarily due to a decrease in share-based compensation of \$12.2 million driven primarily by the decrease in fair value of cash-settled awards, and a decrease in M&A Costs. These decreases were partially offset by an increase in variable compensation resulting from an improvement in expected operating results and additional SG&A from the Cantech Acquisition.

For the second and third quarters of 2017 and the third quarter of 2016, M&A Costs included in SG&A totalled \$2.6 million, \$0.6 million and \$0.8 million, respectively.

SG&A for the first nine months of 2017 totalled \$73.5 million, a \$3.5 million or 4.6% decrease from \$77.0 million for the same period in 2016. The decrease was primarily due to a decrease in share-based compensation of \$9.7 million driven primarily by the decrease in fair value of cash-settled awards, partially offset by additional SG&A from the Powerband and Cantech Acquisitions, and an increase in M&A Costs.

For the first nine months of 2017 and 2016, M&A Costs included in SG&A totalled \$3.9 million and \$2.1 million, respectively.

Manufacturing Facility Closures, Restructuring and Other Related Charges

Manufacturing facility closures, restructuring and other related charges for the third quarter and first nine months of 2017 totalled \$0.2 million and \$0.9 million, respectively, consisting primarily of the post-closure activities related to the Columbia, South Carolina manufacturing facility.

Manufacturing facility closures, restructuring and other related charges for the third quarter and first nine months of 2016 totalled \$6.3 million and \$10.2 million, respectively, consisting primarily of asset impairment charges associated with the closure of the TaraTape Fairless Hills, Pennsylvania manufacturing facility and costs associated with the South Carolina Flood, including site clean-up and environmental remediation costs, real and personal property damage, and professional fees related to the insurance claim process.

Finance Costs

Finance costs for the third quarter of 2017 totalled \$2.9 million, a \$1.5 million increase from \$1.4 million in the third quarter of 2016 and \$1.3 million increase from \$1.6 million in the second quarter of 2017, primarily due to an increase in interest expense as a result of higher average debt outstanding and higher average cost of debt, as well as foreign exchange losses.

Finance costs for the first nine months of 2017 totaled \$6.0 million, a \$2.3 million increase from \$3.8 million for the same period of 2016, primarily due to an increase in interest expense as a result of higher average debt outstanding and higher average cost of debt, as well as foreign exchange losses in the first nine months of 2017 compared to foreign exchange gains in the same period of 2016.

The higher average debt outstanding level in the third quarter and first nine months of 2017 was mainly due to the funding for the Cantech Acquisition and the Capstone Partnership over and above the impact of the funding for the Powerband Acquisition in the same periods in 2016.

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 September 30, 2017		Nine Months Ended September 30, 2017	
	September 30, 2016	September 30, 2016	September 30, 2016	September 30, 2016
	\$	\$	\$	\$
Income tax expense	6.6	1.2	15.5	9.8
Earnings before income tax expense	25.9	7.5	58.3	39.3
Effective tax rate	25.6%	16.4 %	26.6%	25.1 %

The increase in the effective tax rate in the three months ended September 30, 2017 as compared to the same period in 2016 is primarily due to a change in the mix of earnings between jurisdictions. The increase in the effective tax rate in the nine months ended September 30, 2017 as compared to the same period in 2016 is primarily due to a change in the mix of earnings between jurisdictions, partially offset by the benefit recognized in the US for the domestic production activities deduction.

IPG Net Earnings

IPG Net Earnings for the third quarter of 2017 totalled \$19.2 million, a \$13.0 million increase from \$6.3 million for the third quarter of 2016, primarily due to a decrease in SG&A and manufacturing facility closures, restructuring and other related charges, and an increase in gross profit, partially offset by an increase in income tax expense.

IPG Net Earnings for the third quarter of 2017 increased \$9.0 million from \$10.2 million for the second quarter of 2017, primarily due to a decrease in SG&A and an increase in gross profit, partially offset by an increase in income tax expense.

IPG Net Earnings for the first nine months of 2017 totalled \$42.9 million, a \$13.5 million increase from \$29.4 million for the same period of 2016, primarily due to an increase in gross profit and a decrease in manufacturing facility closures and restructuring and other related charges, and a decrease in SG&A, partially offset by an increase in income tax expense.

Non-GAAP Financial Measures

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

EBITDA and Adjusted EBITDA

A reconciliation of the Company's EBITDA, a non-GAAP financial measure, to net earnings (loss), the most directly comparable GAAP financial measure, is set out in the EBITDA reconciliation table below. EBITDA should not be construed as earnings (loss) before income taxes, net earnings (loss) or cash flows from operating activities as determined by GAAP. The Company defines EBITDA as net earnings (loss) before (i) interest and other finance costs; (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 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 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.

EBITDA and Adjusted EBITDA Reconciliation to Net Earnings

(In millions of US dollars)

(Unaudited)

	Three months ended						Nine months ended		
	2017			2016			2017	2016	
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Sep 30	
	\$	\$	\$	\$	\$	\$	\$	\$	
Net earnings	19.3	10.1	13.4	21.7	6.3	13.7	9.5	42.8	29.4
Interest and other finance costs	2.9	1.6	1.6	1.3	1.4	1.4	0.9	6.0	3.8
Income tax expense	6.6	4.0	4.9	9.7	1.2	5.6	3.0	15.5	9.8
Depreciation and amortization	9.6	8.4	8.3	8.7	7.7	7.4	7.2	26.3	22.3
EBITDA	38.4	24.0	28.2	41.3	16.6	28.1	20.7	90.6	65.3
Manufacturing facility closures, restructuring and other related charges (recoveries)	0.2	0.4	0.3	(7.7)	6.3	2.1	1.7	0.9	10.2
M&A Costs	1.9	2.6	0.7	0.3	0.7	1.0	0.4	5.3	2.1
Share-based compensation (benefit) expense	(8.2)	4.0	1.2	1.6	2.4	2.5	1.6	(3.1)	6.6
Impairment of long-lived assets and other assets	—	—	—	0.1	—	0.1	—	—	0.2
Loss on disposal of property, plant and equipment	0.1	0.1	—	—	—	0.1	—	0.2	0.1
Other item: Litigation Settlement	—	—	—	—	1.9	—	—	—	1.9

Adjusted EBITDA⁽¹⁾ 32.4 31.1 30.4 35.6 28.0 34.0 24.4 93.9 86.4
(1) Prior period amounts have been conformed to the new definition of adjusted EBITDA which excludes M&A Costs. Adjusted EBITDA totalled \$32.4 million for the third quarter of 2017, a \$4.4 million or 15.9% increase from \$28.0 million for the third quarter of 2016, primarily due to an increase in gross profit and additional adjusted EBITDA from the Powerband and

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Cantech Acquisitions, partially offset by an increase in variable compensation resulting from an improvement in expected operating results.

Adjusted EBITDA for the third quarter of 2017 increased \$1.3 million or 4.3% from \$31.1 million for the second quarter of 2017, primarily due to an increase in gross profit and additional adjusted EBITDA from the Cantech Acquisition, partially offset by an increase in variable compensation resulting from an improvement in expected operating results.

Adjusted EBITDA for the first nine months of 2017 totalled \$93.9 million, a \$7.5 million or 8.7% increase from \$86.4 million for the same period in 2016, primarily due to an increase in gross profit and additional adjusted EBITDA from the Powerband and Cantech Acquisitions, partially offset by an increase in employee related costs to support growth initiatives in the business.

Off-Balance Sheet Arrangements

There have been no material changes with respect to off-balance sheet arrangements since December 31, 2016 outside of the Company's ordinary course of business. Reference is made to the section entitled "Off-Balance Sheet Arrangements" in the Company's MD&A as of and for the year ended December 31, 2016 ("2016 MD&A").

Working Capital

The Company uses Days Inventory to measure inventory performance. Days Inventory decreased to 59 in the third quarter of 2017 from 63 in the third quarter of 2016 and 64 in the second quarter of 2017. Inventories increased \$26.5 million to \$130.0 million as of September 30, 2017 from \$103.5 million as of December 31, 2016, primarily due to (i) additional inventory resulting from the Cantech Acquisition, (ii) the acceleration of certain raw material purchases ahead of raw material price increases caused by supply chain disruptions resulting from Hurricane Harvey, and (iii) a planned, seasonal inventory build of certain carton sealing tape products.

The Company uses Days Sales Outstanding ("DSO") to measure trade receivables. DSO increased to 44 in the third quarter of 2017 from 42 in the third quarter of 2016 and 41 in the second quarter of 2017. Trade receivables increased \$26.1 million to \$116.2 million as of September 30, 2017 from \$90.1 million as of December 31, 2016, primarily due to an increase in the amount and timing of revenue invoiced later in the third quarter of 2017 as compared to later in the fourth quarter of 2016, including the impact of the Cantech Acquisition.

The calculations are shown in the following tables:

	Three months ended				Three months ended		
	September 30, 2017	June 30, 2017	September 30, 2016		September 30, 2017	June 30, 2017	September 30, 2016
Cost of sales ⁽¹⁾	\$192.6	\$162.8	\$ 161.7	Revenue ⁽¹⁾	\$243.4	\$210.2	\$ 206.6
Days in quarter	92	91	92	Days in quarter	92	91	92
Cost of sales per day ⁽¹⁾	\$2.09	\$1.79	\$ 1.76	Revenue per day ⁽¹⁾	\$2.65	\$2.31	\$ 2.25
Average inventory ⁽¹⁾	\$123.4	\$115.1	\$ 111.0	Trade receivables ⁽¹⁾	\$116.2	\$94.1	\$ 93.4
Days inventory	59	64	63	DSO	44	41	42

Days inventory is calculated as follows:

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

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

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

DSO is calculated as follows:

Revenue ÷ Days in quarter = Revenue per day

Ending trade receivables ÷ Revenue per day = DSO

(1) In millions of US dollars

Accounts payable and accrued liabilities decreased \$13.5 million to \$84.5 million as of September 30, 2017 from \$98.0 million as of December 31, 2016, primarily due to the timing of payments for inventory as well as SG&A.

Liquidity and Borrowings

On June 9, 2017, the Company amended its \$300.0 million revolving credit facility with a syndicate of financial institutions (“Revolving Credit Facility”) to increase its borrowing limit by \$150.0 million, bringing the Revolving Credit Facility’s credit limit to \$450.0 million. The amended credit agreement continues to include an incremental accordion feature of \$150.0 million, enabling the Company to further increase the credit limit of the Revolving Credit Facility if needed, subject to the credit agreement’s existing terms and lender approval.

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

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

The Company believes it has sufficient cash on hand, and that it will generate sufficient funds from cash flows from operating activities, to meet its ongoing expected capital expenditures, working capital and discretionary dividend payment funding needs for at least the next twelve months. In addition, funds available under the Revolving Credit Facility may be used, as needed, to fund more significant strategic initiatives.

As of September 30, 2017, the Company had drawn a total of \$309.1 million against the Revolving Credit Facility, which consisted of \$302.3 million of borrowings and \$6.8 million of standby letters of credit. This resulted in loan availability of \$140.9 million. In addition, the Company had \$20.8 million of cash, yielding total cash and loan availability of \$161.7 million as of September 30, 2017 as compared to total cash and loan availability of \$158.2 million as of December 31, 2016.

The Revolving Credit Facility is priced primarily on the LIBOR rate for US Dollar-denominated loans, or other floating rates for revolving credit loans denominated in an alternative currency, plus a spread varying between 100 and 225 basis points (200 basis points as of September 30, 2017 and 150 basis points as of December 31, 2016) and any mandatory costs. The spread depends on the consolidated total leverage ratio and increases as the consolidated total leverage ratio increases. As of September 30, 2017, \$218.0 million of borrowings was priced at 30-day US Dollar LIBOR, \$83.9 million priced at 30-day Canadian Dollar Offering Rate (“CDOR”), and \$0.5 million priced at US Prime Rate. As of December 31, 2016, the full \$161.0 million of borrowings was priced at 30-day US dollar LIBOR.

The Revolving Credit Facility has, in summary, three financial covenants: (i) a consolidated total leverage ratio not to be greater than 3.25 to 1.00 with an allowable temporary increase to 3.75 to 1.00 for the four quarters following an acquisition with a price not less than \$50.0 million, (ii) a consolidated debt service ratio not to be less than 1.50 to 1.00, and (iii) the aggregated amount of all capital expenditures in any fiscal year may not exceed \$100.0 million (this was increased from \$50.0 million under a January 2017 amendment to the Revolving Credit Facility). Prior to the January 2017 amendment, any portion of the then allowable \$50.0 million not expended in the year could be carried over for expenditure in the following year but not carried over to any additional subsequent year thereafter.

The Company was in compliance with all three financial covenants which were 2.44, 6.68 and \$71.4 million, respectively, as of September 30, 2017.

Cash Flows

The Company’s net working capital on the balance sheets increased during 2017 and 2016 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 2017 and 2016 working capital items appropriately exclude these effects.

Cash flows from operating activities increased in the third quarter of 2017 by \$4.0 million to \$24.1 million from \$20.1 million in the third quarter of 2016 primarily due to an increase in gross profit, partially offset by a decrease in cash flows from working capital items. Changes in working capital items consisted primarily of a larger increase in accounts receivable resulting from the amount and timing of revenue invoiced in the third quarter of 2017 compared

to the third quarter of 2016, partially offset by an increase in accounts payable and accrued liabilities mainly due to the timing of payments for inventory and SG&A, and a larger decrease in inventory in the third quarter of 2017 compared to the third quarter of 2016.

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Cash flows from operating activities increased in the third quarter of 2017 by \$4.5 million to \$24.1 million from \$19.6 million in the second quarter of 2017 primarily due to an increase in gross profit and cash flows from working capital items. Cash flows from working capital items increased from last quarter primarily due to a decrease in inventories resulting from an increase in sales volume in the third quarter of 2017 and a larger increase in accounts payable and accrued liabilities in the third quarter of 2017 mainly due to the timing of payments for inventory and SG&A. These impacts were partially offset by a larger increase in accounts receivable resulting primarily from the amount and timing of revenue invoiced in the third quarter of 2017 compared to the second quarter of 2017.

Cash flows from operating activities decreased in the first nine months of 2017 by \$10.1 million to \$33.1 million from \$43.2 million in the same period in 2016 primarily due to larger cash outflows from working capital items, partially offset by an increase in gross profit. Cash outflows from working capital items increased primarily due to (i) a larger decrease in accounts payable largely due to the timing of payments for SG&A and inventory, (ii) a larger increase in accounts receivable resulting primarily from the amount and timing of revenue invoiced in the first nine months of 2017 compared to the same period in 2016 and (iii) a decrease in provisions resulting primarily from payments associated with manufacturing facility closures in the first nine months of 2017.

Cash flows used for investing activities decreased in the third quarter of 2017 by \$31.2 million to \$23.4 million from \$54.5 million in the third quarter of 2016 primarily due to the release of restricted cash balances to fund the Cantech Acquisition in the third quarter of 2017, partially offset by the larger Cantech Acquisition as compared to the Powerband Acquisition in the third quarter of 2016, and an increase in capital expenditures.

Cash flows used for investing activities decreased in the third quarter of 2017 by \$68.8 million to \$23.4 million from \$92.2 million in the second quarter of 2017 primarily due to the release of restricted cash balances to fund the Cantech Acquisition in the third quarter of 2017.

Cash flows used for investing activities increased in the first nine months of 2017 by \$59.8 million to \$137.6 million from \$77.9 million in the same period in 2016 primarily due to an increase in capital expenditures and the Cantech Acquisition in July 2017.

Cash flows from financing activities decreased in the third quarter of 2017 by \$18.9 million to \$9.3 million from \$28.2 million in the third quarter of 2016 and by \$68.5 million from \$77.8 million in the second quarter of 2017 primarily due to a decrease in net borrowings and an increase in repurchases of common stock.

Cash flows from financing activities increased in the first nine months of 2017 by \$79.6 million to \$102.9 million from \$23.4 million in the same period in 2016, primarily due to an increase in net borrowings to fund the Cantech Acquisition.

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

Free cash flows, defined by the Company as cash flows from operating activities less purchases of property, plant and equipment, decreased in the third quarter of 2017 by \$12.3 million to negative \$4.7 million from \$7.6 million in the third quarter of 2016. Free cash flows in the third quarter of 2017 decreased \$3.9 million from negative \$0.8 million in the second quarter of 2017. The decrease in both periods is primarily due to an increase in capital expenditures, partially offset by an increase in cash flows from operating activities.

Free cash flows decreased by \$45.7 million to negative \$38.3 million in the first nine months of 2017 from \$7.4 million in the first nine months of 2016, primarily due to an increase in capital expenditures and a decrease in cash flows from operating activities.

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

(In millions of US dollars)

(Unaudited)

	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$	\$
Cash flows from operating activities	24.1	19.6	20.1	33.1	43.2
Less purchases of property, plant and equipment	(28.8)	(20.4)	(12.5)	(71.4)	(35.8)
Free cash flows	(4.7)	(0.8)	7.6	(38.3)	7.4

Capital Resources

Capital expenditures totalled \$28.8 million and \$71.4 million in the three and nine months ended September 30, 2017, respectively, and were funded by the Revolving Credit Facility and cash flows from operations. The Company had commitments to suppliers to purchase machines and equipment totalling \$27.4 million as of September 30, 2017 that are expected to be paid out in the next twelve months. These capital expenditures and commitments are primarily to support the water-activated tape capacity expansion at the Midland, North Carolina manufacturing facility, the Capstone Greenfield Project, the Powerband Investment Project, and other strategic and growth initiatives discussed in the section entitled "Capital Resources" in the Company's 2016 MD&A.

The Midland, North Carolina manufacturing facility began commissioning production lines in the third quarter of 2017 and is ramping up to full capacity in the fourth quarter of 2017 as planned. Capital expenditures for this project since inception totalled \$46.1 million as of September 30, 2017 of which \$28.0 million has been incurred in the first nine months of 2017. The total capital expenditures incurred are within the Company's previous guidance of \$44 to \$49 million and are not expected to increase materially in the fourth quarter of 2017. The Company continues to expect to achieve an after-tax return of at least 15% on this project. As a result of the success of this project to date and the Company's expectation of further demand growth in water-activated tapes, the Company has also begun an initiative to further expand capacity at the Midland, North Carolina manufacturing facility which is expected to be completed by the beginning of 2019 for an expected, additional investment of \$13.5 million

Excluding the South Carolina Project, all other major initiatives are currently progressing as planned both in terms of timeline and expenditure levels.

Contractual Obligations

There have been no material changes with respect to contractual obligations since December 31, 2016 outside of the Company's ordinary course of business. Reference is made to the section entitled "Contractual Obligations" in the Company's 2016 MD&A.

Capital Stock and Dividends

As of September 30, 2017, there were 58,871,710 common shares of the Company outstanding.

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

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Equity-settled				
Stock options exercised	—	42,500	226,875	25,000
Cash proceeds (in millions of US dollars)	\$ —	\$ 0.3	\$ 1.4	\$ 0.8
Cash-settled				
Stock Appreciation Rights exercised	—	234,475	13,250	82,202
PSUs granted	—	—	358,379	2,572
PSUs settled	—	—	139,200	—
DSUs granted	7,934	70,951	48,175	2,665
Cash settlements (in millions of US dollars)	\$ —	\$ 2.8	\$ 4.3	\$ 4.0

On February 17, 2017, the Board of Directors approved amendments to the Performance Share Unit (“PSU”) Plan and Deferred Share Unit (“DSU”) Plan to provide for only cash settlement of PSU and DSU awards, respectively. As a result of the amendments, the Company remeasured the fair value of the awards on the amendment date and will continue to do so, prospectively at each reporting period end date and at award settlement, and present the cash-settled awards as a liability in the consolidated balance sheets. Changes in the fair value of the liability are reflected in earnings in SG&A. As of September 30, 2017, \$4.9 million was recorded in share-based compensation liabilities, current and \$2.5 million was recorded in share-based compensation liabilities, non-current.

On June 15, 2017, the Board of Directors approved the settlement of PSUs granted in 2014 which had been earned and vested in accordance with the PSU plan. The PSU settlement occurred on June 22, 2017. The number of PSUs earned was 150% of the grant amount based on the total shareholder return ranking versus a specified peer group of companies as of June 11, 2017.

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

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Equity-settled	—	—	0.1	0.3
Cash-settled	(8.3)	2.4	(3.2)	6.2
Total	(8.2)	2.4	(3.1)	6.6

The Company paid cash dividends of \$0.14 per common share on March 31, June 30, and September 29, 2017 to shareholders of record at the close of business on March 21, June 15, and September 15, 2017, respectively, in an aggregate amount of \$24.8 million.

On November 10, 2017, the Board of Directors declared a quarterly cash dividend of \$0.14 per common share payable on December 29, 2017 to shareholders of record at the close of business on December 15, 2017.

The dividends paid and payable in 2017 by the Company are “eligible dividends” as defined in subsection 89(1) of the Income Tax Act (Canada).

The Company’s NCIB which expired on July 13, 2017 was renewed for a twelve-month period starting on July 17, 2017. Under the renewed NCIB, the Company may repurchase for cancellation up to 4,000,000 common shares.

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The table below summarizes the NCIB activity that occurred during the following periods (in millions of US dollars except share and per share amounts):

	Three months ended September 30, 2017		Nine months ended September 30, 2016	
Common shares repurchased	415,500	—	415,500	47,200
Average price per common share including commissions	CDN\$19.05	CDN\$15.77	CDN\$15.77	CDN\$15.77
Total purchase price including commissions	\$ 6.4	\$ —	\$ 6.4	\$ 1.7

As of November 10, 2017, the Company has repurchased and cancelled 487,300 common shares under its NCIB for a total purchase price of approximately \$7 million.

Financial Risk, Objectives and Policies

The Company is exposed to a risk of change in cash flows due to the fluctuations in interest rates applicable on its variable rate Revolving Credit Facility and other floating rate borrowings. To minimize the long-term cost of floating rate borrowings, the Company entered into interest rate swap agreements that are designated as cash flow hedges. The terms of the interest rate swap agreements are as follows (in millions of US dollars, except as noted):

Effective Date	Maturity	Notional amount \$	Settlement	Fixed interest rate paid %
March 18, 2015	November 18, 2019	40.0	Monthly	1.610
August 18, 2015	August 20, 2018	60.0	Monthly	1.197
June 8, 2017	June 20, 2022	40.0	Monthly	1.790
July 21, 2017	July 18, 2022	CDN 90.0 ⁽¹⁾	Monthly	1.683
August 20, 2018	August 18, 2023	60.0	Monthly	2.045

On July 21, 2017, the Company entered into an interest rate swap agreement to minimize the long-term cost of (1) borrowings priced at the 30-day CDOR. The notional amount will decrease by CDN\$18.0 million on the 18th of July each year until settlement.

Litigation

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, 2017.

Critical Accounting Judgments, Estimates and Assumptions

The preparation of the Company's Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Significant changes in the underlying assumptions could result in significant changes to these estimates. Consequently, management reviews these estimates on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The judgments, estimates and assumptions applied in the Financial Statements were the same as those applied in the Company's most recent annual audited consolidated financial statements, except for (i) the estimate of the provision for income taxes, which is determined in the Financial Statements using the estimated weighted average annual effective income tax rate applied to the earnings before income tax expense of the interim period, which may have to be adjusted in a subsequent interim period of the financial year if the estimate of the annual income tax rate changes and (ii) the re-measurement of the defined benefit liability, which is required at year-end and if triggered by plan amendment or settlement during interim periods. The Financial Statements should be read in conjunction with the Company's 2016 annual audited consolidated 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 second reporting period following the date of application. Information on new standards, amendments and interpretations, and improvements to existing standards, which could potentially impact the Company's Financial Statements, are detailed as follows:

IFRS 15 – Revenue from Contracts with Customers replaces IAS 18 – Revenue, IAS 11 – Construction Contracts and some revenue related interpretations. IFRS 15 establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized at a point in time or over time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018. Management has performed a preliminary review of the new guidance as compared to the Company's current accounting policies, and began a review of its sales contracts. Based on its initial evaluation, management does not expect the new guidance to materially impact the Company's Financial Statements. Management plans to finalize its review and determine the method of adoption in the next quarter.

IFRS 9 (2014) - Financial Instruments was issued in July 2014 and differs in some regards from IFRS 9 (2013) which the Company adopted effective January 1, 2015. IFRS 9 (2014) includes updated guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new expected credit loss model for calculating impairment. The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Based on its initial evaluation, management does not expect the new guidance to materially impact the Company's Financial Statements. Management plans to finalize its review and determine the method of adoption in the next quarter.

IFRS 16 - Leases which will replace IAS 17 - Leases was issued in January 2016. IFRS 16 eliminates the classification of an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods; changes the accounting for sale and leaseback arrangements; largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early adoption permitted in certain circumstances. Management is currently quantifying the impact of this new standard on the Company's Financial Statements.

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

Internal Control Over Financial Reporting

In accordance with the Canadian Securities Administrators' National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 52-109"), the Company has filed interim certificates signed by the Chief Executive Officer ("CEO") and the CFO that, among other things, report on the design of disclosure controls and procedures and design of internal

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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 8.2 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 of America.

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. The CEO and the CFO have concluded that the Company's internal control over financial reporting as of September 30, 2017 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 2016, is available on the Company's website (www.itape.com) as well as under the Company's profile on SEDAR at www.sedar.com and on EDGAR at 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, sales and financial results, 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, the impacts of new accounting standards, judgments, estimates, assumptions, litigation and business strategy, may constitute forward-looking statements. These forward-looking statements are based on current beliefs, assumptions, expectations, estimates, forecasts and projections made by the Company's management. Words such as "may," "will," "should," "expect," "continue," "intend," "estimate," "anticipate," "plan," "foresee," "believe" or "seek" or the negatives of these terms or variations of them or similar terminology are intended to identify such forward-looking statements. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, these statements, by their nature, involve risks and uncertainties and are not guarantees of future performance. Such statements are also subject to assumptions concerning, among other things: business conditions and growth or declines in the Company's industry, the Company's customers' industries and the general economy; the anticipated benefits from the Company's manufacturing facility closures and other restructuring efforts; the anticipated benefits from the Company's acquisitions and partnerships; the anticipated benefits from the Company's capital expenditures; the quality, and market reception, of the Company's products; the Company's anticipated business strategies; risks and costs inherent in litigation; the Company's ability to maintain and improve quality and customer service; anticipated trends in the Company's business; anticipated cash flows from the Company's operations; availability of funds under the Company's Revolving Credit Facility; 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, 2016 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.