



***2010 ANNUAL REPORT***

Intertape Polymer Group Inc.  
Consolidated Financial Statements  
December 31<sup>st</sup>, 2010, 2009 and 2008  
Including Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") supplements the consolidated financial statements and related notes for the year ended December 31, 2010. Except where otherwise indicated, all financial information reflected herein is prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and is expressed in US dollars.

#### FINANCIAL HIGHLIGHTS

(In thousands of US dollars except per share data, selected ratios, stock and trading volume information.)

(Unaudited)

	2010	2009	2008
Operations	\$	\$	\$
Consolidated sales	720,516	615,462	737,155
Net loss Cdn GAAP	(56,445)	(14,389)	(92,799)
Net loss US GAAP	(56,445)	(14,468)	(93,698)
Cash flows from operations before changes in non-cash working capital items	25,368	26,983	25,131

	2010	2009	2008
Per Common Share			
Net loss Cdn GAAP – basic	(0.96)	(0.24)	(1.57)
Net loss US GAAP – basic	(0.96)	(0.25)	(1.59)
Net loss Cdn GAAP – diluted	(0.96)	(0.24)	(1.57)
Net loss US GAAP – diluted	(0.96)	(0.25)	(1.59)
Cash flows from operations before changes in non-cash working capital items	0.43	0.46	0.43
Book value Cdn GAAP	3.17	4.03	3.96
Book value US GAAP	2.91	3.80	3.70

	2010	2009	2008
Financial Position			
Working capital	128,006	122,279	133,144
Total assets Cdn GAAP	506,105	535,853	575,166
Total assets US GAAP	506,730	538,718	578,598
Total long-term debt Cdn GAAP	221,014	217,002	251,425
Total long-term debt US GAAP	223,545	220,103	255,241
Shareholders' equity Cdn GAAP	186,834	237,803	233,317
Shareholders' equity US GAAP	171,444	224,212	218,195

	2010	2009	2008
Selected Ratios			
Working capital	2.46	2.75	2.69
Debt/capital employed Cdn GAAP	0.54	0.48	0.52
Debt/capital employed US GAAP	0.57	0.50	0.54
Return on equity Cdn GAAP	NA	NA	NA
Return on equity US GAAP	NA	NA	NA

	2010	2009	2008
Stock Information			
Weighted average shares outstanding (Cdn GAAP) - basic <sup>(2)</sup>	58,954	58,951	58,956
Weighted average shares outstanding (US GAAP) - basic <sup>(2)</sup>	58,954	58,951	58,956
Weighted average shares outstanding (Cdn GAAP) - diluted <sup>(2)</sup>	58,954	58,951	58,956
Weighted average shares outstanding (US GAAP) - diluted <sup>(2)</sup>	58,954	58,951	58,956
Shares outstanding as of December 31 <sup>(2)</sup>	58,961	58,951	58,956

	2010	2009	2008
The Toronto Stock Exchange (CA\$)			
Share price as of December 31	1.17	2.98	1.09
High: 52 weeks	3.52	3.00	3.59
Low: 52 weeks	0.93	0.39	0.67
Volume: 52 weeks <sup>(2)</sup>	12,080	11,890	8,665

	2010	2009	2008
U. S. Exchange / 2010 – OTC Pink Sheets			
Share price as of December 31 <sup>(3)</sup>	1.15	2.84	0.73
High: 52 weeks	3.38	2.86	3.47
Low: 52 weeks	0.95	0.30	0.68
Volume: 52 weeks <sup>(2)</sup>	4,768	18,626	15,870

	High	Low	Close	ADV <sup>(1)</sup>
The Toronto Stock Exchange (CA\$)				
Q1	3.60	2.39	3.32	55,724
Q2	3.38	2.10	2.20	37,125
Q3	2.25	1.52	1.55	29,549
Q4	1.65	0.92	1.17	70,235

	High	Low	Close	ADV <sup>(1)</sup>
U.S. (OTC Pink Sheets)				
Q1	3.43	2.31	3.31	15,133
Q2	3.31	2.03	2.09	19,360
Q3	2.09	1.50	1.51	12,972
Q4	1.54	0.93	1.15	26,831

<sup>(1)</sup> Average daily volume

<sup>(2)</sup> In thousands

<sup>(3)</sup> Effective December 3, 2009, the Company voluntarily delisted its shares of common stock from the New York Stock Exchange (the "NYSE"). The Company's shares of common stock will continue to trade on the Toronto Stock Exchange (the "TSX"). The delisting of the Company's common shares from the NYSE did not affect the listing of the Company's shares of common stock on the TSX. The Company believes that the listing of its shares of common stock on the TSX provides shareholders sufficient liquidity and concluded that the overall trading volume of the Company's shares was not sufficient to justify listing on two exchanges. The U.S. exchange information listed above was derived from trading on the OTC Pink Sheets.

## CONSOLIDATED QUARTERLY STATEMENTS OF EARNINGS

(In thousands of US dollars, except as otherwise noted)

(Unaudited)

	1st Quarter			2nd Quarter		
	2010	2009	2008	2010	2009	2008
	\$	\$	\$	\$	\$	\$
Sales	173,120	139,068	184,501	180,278	151,912	197,534
Cost of sales	153,493	124,252	156,324	158,906	130,379	171,184
Gross Profit	19,627	14,816	28,177	21,372	21,533	26,350
Selling, general and administrative expenses	18,904	15,416	17,629	17,858	16,601	17,196
Stock-based compensation expense	262	258	421	222	254	329
Research and development expense	1,492	1,373	1,441	1,929	1,295	1,528
Financial expenses:						
Interest	3,749	4,085	5,984	3,777	3,970	4,339
Other (i)	122	494	(648)	392	536	(681)
Refinancing expense			6,031			
Manufacturing facility closures, restructuring, and other charges						
Impairment of goodwill						
	24,529	21,626	30,858	24,178	22,656	22,711
Earnings (loss) before income taxes	(4,902)	(6,810)	(2,681)	(2,806)	(1,123)	3,639
Income taxes (recovery):						
Current	102	9	240	(16)	385	83
Future	791	(167)	(1,058)	(124)	(313)	(1,082)
	893	(158)	(818)	(140)	72	(999)
Net earnings (loss)	(5,795)	(6,652)	(1,863)	(2,666)	(1,195)	4,638
Earnings (loss) per share						
Cdn GAAP - Basic - US \$	(0.10)	(0.11)	(0.03)	(0.05)	(0.02)	0.08
Cdn GAAP - Diluted - US \$	(0.10)	(0.11)	(0.03)	(0.05)	(0.02)	0.08
US GAAP - Basic - US \$	(0.10)	(0.11)	(0.03)	(0.05)	(0.02)	0.08
US GAAP - Diluted - US \$	(0.10)	(0.11)	(0.03)	(0.05)	(0.02)	0.08
Weighted average number of common shares outstanding						
Cdn GAAP – Basic	58,951,050	58,951,050	58,956,348	58,951,050	58,951,050	58,956,348
Cdn GAAP – Diluted	58,951,050	58,951,050	58,956,348	58,951,050	58,951,050	58,956,348
US GAAP – Basic	58,951,050	58,951,050	58,956,348	58,951,050	58,951,050	58,956,348
US GAAP – Diluted	58,951,050	58,951,050	58,956,348	58,951,050	58,951,050	58,956,348

(i) As explained in the "Changes in Accounting" Policies section of Management's Discussion and Analysis in 2008, prompt pay discounts to suppliers were reclassified from a reduction in other financial expenses to a reduction in cost of sales. The reclassification does not change the reported net earnings (loss) of the Company.

Management's Discussion and Analysis  
CONSOLIDATED QUARTERLY STATEMENTS OF EARNINGS  
(In thousands of US dollars, except as otherwise noted)  
(Unaudited)

	3rd Quarter			4th Quarter		
	2010	2009	2008	2010	2009	2008
	\$	\$	\$	\$	\$	\$
Sales	187,057	163,688	201,978	180,061	160,794	153,142
Cost of Sales	167,492	137,295	172,772	161,015	140,617	158,620
Gross Profit	19,565	26,393	29,206	19,046	20,177	(5,478)
Selling, general and administrative expenses	17,073	17,756	17,490	18,642	20,047	15,874
Stock-based compensations expense	302	255	348	178	270	170
Research and Development	1,485	1,449	1,334	1,346	1,488	1,307
Financial expenses:						
Interest	4,062	4,050	4,230	3,950	3,783	3,812
Other (i)	461	(525)	806	(95)	(653)	1,948
Refinancing expense						
Manufacturing facility closures, restructuring, and other charges				8,089	1,091	
Impairment of goodwill						66,726
	23,383	22,985	24,208	32,110	26,026	89,837
Earnings (loss) before income taxes	(3,818)	3,408	4,998	(13,064)	(5,849)	(95,315)
Income taxes (recovery)						
Current	447	155	(374)	(543)	182	(515)
Future	342	1,253	1,153	30,856	2,511	4,993
	789	1,408	779	30,313	2,693	4,478
Net earnings (loss)	(4,607)	2,000	4,219	(43,377)	(8,542)	(99,793)
Earnings (loss) per share						
Cdn GAAP – Basic – US\$	(0.08)	0.03	0.07	(0.74)	(0.14)	(1.69)
Cdn GAAP – Diluted-US\$	(0.08)	0.03	0.07	(0.74)	(0.14)	(1.69)
US GAAP – Basic- US\$	(0.08)	0.03	0.07	(0.74)	(0.14)	(1.69)
US GAAP – Diluted-US\$	(0.08)	0.03	0.07	(0.74)	(0.14)	(1.69)
Weighted average number of common shares outstanding						
Cdn GAAP – Basic	58,951,050	58,951,050	58,956,348	58,961,050	58,951,050	58,956,348
Cdn GAAP – Diluted	58,951,050	58,981,300	58,956,348	58,961,050	58,951,050	58,956,348
US GAAP – Basic	58,951,050	58,951,050	58,956,348	58,961,050	58,951,050	58,956,348
US GAAP – Diluted	58,951,050	58,981,300	58,956,348	58,961,050	58,951,050	58,956,348

(i) As explained in the "Changes in Accounting" Policies section of Management's Discussion and Analysis in 2008, prompt pay discounts to suppliers were reclassified from a reduction in other financial expenses to a reduction in cost of sales. The reclassification does not change the reported net earnings (loss) of the Company.

Management's Discussion and Analysis

ADJUSTED CONSOLIDATED EARNINGS (LOSS)

Adjustments for impairment of goodwill, write-down of assets classified as held-for-sale, impairment of long-lived assets, unprecedented gross margin compression, refinancing expense and manufacturing facility closures, restructuring, and other charges.

Years Ended December 31,  
(In millions of US dollars, except per share amounts)  
(Unaudited)

As Reported	2010	2009	2008
	\$	\$	\$
Sales	720.5	615.5	737.2
Cost of sales	640.9	532.6	659.0
Gross profit	79.6	82.9	78.2
Selling, general and administrative expenses	72.5	69.8	68.2
Stock-based compensation expense	1.0	1.0	1.3
Research and development	6.3	5.6	5.6
Financial expenses	16.4	15.8	25.8
Manufacturing facility closures, restructuring, and other charges	8.1	1.1	
Impairment of goodwill			66.7
	104.2	93.3	167.6
Loss before income taxes	(24.6)	(10.4)	(89.4)
Income taxes	31.9	4.0	3.4
Net loss	(56.4)	(14.4)	(92.8)

Loss per share – As Reported	2010	2009	2008
Basic	(0.96)	(0.24)	(1.57)
Diluted	(0.96)	(0.24)	(1.57)

Adjustments	2010	2009	2008
Impairment of goodwill			66.7
Write-down of assets classified as held-for-sale	0.7		
Impairment of long-lived assets	4.0	0.1	0.4
Gross margin compression			16.6
Refinancing expense			6.0
Manufacturing Facility Closures, Restructuring, and Other Charges	8.1	1.1	

## ADJUSTED CONSOLIDATED EARNINGS (LOSS)

Adjustments for impairment of goodwill, write-down of assets classified as held-for-sale, impairment of long-lived assets, unprecedented gross margin compression, refinancing expense and manufacturing facility closures, restructuring, and other charges.

Years Ended December 31,

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

(Unaudited)

As Adjusted	2010	2009	2008
	\$	\$	\$
Sales	720.5	615.5	737.2
Cost of sales	637.0	532.5	642.0
Gross profit	83.5	83.0	95.2
Selling, general and administrative expenses	71.8	69.8	68.2
Stock-based compensation expense	1.0	1.0	1.3
Research and development expense	6.2	5.6	5.6
Financial expenses	16.4	15.8	19.8
	95.3	92.2	94.9
Earnings (loss) before income taxes	(11.8)	(9.2)	0.3
Income taxes	31.9	4.0	3.4
Net loss	(43.7)	(13.2)	(3.1)
Loss per Share - As Adjusted			
Basic	(0.74)	(0.22)	(0.05)
Diluted	(0.74)	(0.22)	(0.05)

Note: These tables reconcile consolidated earnings (loss) as reported in the accompanying consolidated financial statements to adjusted consolidated earnings (loss) after the elimination of impairment of goodwill, write-down of asset classified as held-for-sale, impairment of long-lived assets, unprecedented gross margin compression, refinancing expense and manufacturing facility closures, restructuring, and other charges. The Company has included these non-GAAP financial measures because it believes the measures permit more meaningful comparisons of its performance between the periods presented.

## MANAGEMENT'S DISCUSSION & ANALYSIS

### Business Overview

Intertape Polymer Group Inc. ("IPG" or the "Company") was founded in 1981 and is a recognized leader in the specialty packaging industry in North America. As a result of the Company's structural, operational, management and reporting realignments during the third quarter of 2010, the Company no longer has two operating divisions, Tapes and Films Division ("T&F Division") and Engineered Coated Products Division ("ECP Division"). The Company believes that this change is significantly improving organizational effectiveness and maximizing the benefits of the Company's supply chain, operational, sales and marketing resources. The Company develops, manufactures and sells a variety of specialized polyolefin films, paper and film pressure sensitive tapes and complementary packaging systems for use in industrial and retail applications. The Company designs its specialty products for aerospace, automotive and industrial applications. The Company's tape and film products are sold to a broad range of industrial and specialty distributors, consumer outlets and large end-users in diverse markets. Other tape products include carton sealing tapes, including Intertape® pressure-sensitive and water-activated tapes; industrial and performance specialty tapes, including masking, duct, electrical and reinforced filament tapes; ExlFilm® shrink film; and Stretchflex® stretch wrap. The Company also manufactures engineered coated fabrics and flexible intermediate bulk containers ("FIBC"). These products are sold through a variety of industrial and specialty distributors with a focus on sales to the construction and agricultural markets as well as the flexible packaging market.

During 2010, the Company increased sales by 17.1%. However, significant raw material cost increases occurred that the Company was not able to entirely pass along to customers due to competitive pressures. This contributed to a 2.5% deterioration of gross margin from 2009 to 2010. From 2009 to 2010, raw material costs increased by more than: 30%, 15% and 30% for resin-based items, adhesives and paper, respectively.

The Company decided to close its Brantford, Ontario, Canada manufacturing facility due to the economic consequences of the continuing strike of its unionized workers. As a result of this plant closure, a charge of \$7.4 million was recorded in the fourth quarter related to property, plant and equipment, severance, inventory and parts and supplies. Various other expenses of between \$1.0 million and \$1.5 million are expected to be recorded when incurred throughout 2011. While some of the Brantford production will be transferred internally to other facilities, the Company has decided to discontinue certain non-core product lines. The closure of the Brantford, Ontario facility is expected to result in an annualized increase in EBITDA (as such non-GAAP term is defined in the "EBITDA" section below) of approximately \$4 million, even though it is expected to negatively impact annualized sales by about \$10 million.

The Company continued to place concerted sales and marketing effort to focus on higher margin products which include recently launched products and a portfolio of existing products. Manufacturing cost reduction programs, which included productivity improvements, waste reduction and energy conservation, were implemented during 2010 and totalled approximately \$15 million.

For the fiscal year 2010, the Company reported a net loss of \$56.4 million (\$0.96 per share, both basic and diluted) compared to a net loss of \$14.4 million (\$0.24 per share, both basic and diluted) for 2009. The significant increase in net loss for the year ended December 31, 2010 in comparison to 2009 is mainly due to:

- Gross margin compression resulting from raw material cost increases;
- A change in the valuation allowance of future tax assets of \$37.8 million, which included a \$31.9 million increase in the fourth quarter with respect to the US jurisdiction;
- Facility closure costs of \$8.1 million, including \$7.4 million related to the Brantford, Ontario manufacturing facility closure; and
- Asset impairments of \$4.0 million, including \$3.9 million related to the lumber film automatic wrapping machines and related assets.

Manufacturing cost reductions are expected to total \$15 to \$18 million in 2011. Some of these cost savings will be offset by continued pricing pressures in the marketplace as well as rising input costs. New product sales and penetration into new markets are also expected to continue in 2011. Furthermore, additional leverage is expected to be realized on fixed costs. The combination of these factors, together with the positive impact from the Brantford, Ontario facility closure and expected improvement in the spread between raw material costs and selling prices are projected to contribute to increased gross margin in 2011. The Company continues to maintain a longer-term target gross margin of 18% to 19%. Gross margin expansion combined with sales growth is expected to generate cash flows from operations sufficient to reduce debt during 2011.

A focus on making only essential capital expenditures and managing working capital, combined with an increase in cash flows from operations before changes in working capital items, allowed the Company to limit the increase in debt to 1.8% despite an increase in sales of 17.1%, significant gross margin compression and the requirement to post a bond related to the Inspired Technologies, Inc. ("ITI") litigation. Capital expenditures decreased by 34.4% from \$13.1 million for the year 2009 to \$8.6 million for the year

2010. Capital expenditures are expected to increase in 2011 to between \$15 and \$18 million, which includes some projects which were deferred in 2010.

In 2009, the Company filed a complaint in the U.S. District Court for the Middle District of Florida against ITI alleging that ITI had breached its obligations under a supply agreement between the Company and ITI. The supply agreement provided that the Company would manufacture and supply certain products to ITI, and ITI would purchase such products exclusively from the Company. The Company alleged that ITI breached this agreement by licensing a third party to manufacture and sell the products.

ITI filed a counterclaim against the Company alleging that the Company had breached its obligations under the agreements between the parties. ITI also alleged that the Company had engaged in trademark infringement, false advertising, deceptive trade practices, unfair competition and consumer fraud.

On July 14, 2010, the Court granted a motion for summary judgment in favour of the Company on the issue of whether the Company had engaged in trademark infringement, false advertising, deceptive trade practices, unfair competition and consumer fraud. On September 13, 2010, the Court on its own motion determined that the licensing by ITI of its technology to another manufacturer did not violate the supply agreement. It also ordered that the position of the parties be reversed, with the Company being positioned as the defendant.

On September 22, 2010, a jury trial was held on the remaining issues. The jury concluded that the Company had breached certain obligations under the supply agreement and the confidentiality agreements, and awarded ITI approximately \$13.2 million as compensation for its damages.

On October 27, 2010, the Company filed its post-trial motions with the trial court requesting a judgment as a matter of law, new trial, or remittitur. On December 17, 2010, the Court granted Intertape's alternative motion for remittitur. In its order, the Court offered Plaintiff ITI the choice between accepting a remitted judgment amount of \$3.4 million (which included a principal amount of \$3.0 million plus prejudgment interest and attorneys' fees) or electing a new trial on damages. On January 5, 2011, ITI filed a notice stating that it had chosen a new trial on damages. On January 6, 2011, the Court set February 9, 2011 as the date for a new trial and a trial was held on the issue of damages. On February 11, 2011, the jury returned a verdict against the Company in the amount of \$0.7 million.

The execution of the judgment will be stayed during the period required for the Court to rule on the post-trial motions and appeal. At December 31, 2010, the Company had posted an appellate bond of \$13.2 million related to the original judgment (the "Bond") plus required post judgment interest. The Bond was secured with an \$8.0 million letter of credit and \$5.2 million of cash, which is shown as restricted cash on the December 31, 2010 balance sheet. Both the restricted cash and the letter of credit reduced the availability under the Asset Based Loan ("ABL") as of December 31, 2010. Subsequent to December 31, 2010, the Bond was adjusted by the Court based upon the outcome of the new trial. As of March 10, 2011, the amount of the bond is \$1.0 million, which includes \$0.7 million of damages and \$0.3 million of anticipated legal fees and pre-judgment interest.

The Company's management has concluded that although it is possible that it will incur a loss as a result of the ITI litigation, as of December 31, 2010, the amount of the contingent loss cannot be reasonably estimated. In reaching this conclusion, the Company's management considered, among others, the nature and merits of the claims made by parties in the litigation; the appellate process, and the current procedural status of the case. Accordingly, the Company did not record an accrual in connection with this contingent loss.

## **Liquidity**

On March 27, 2008, the Company successfully refinanced its Senior Secured Credit Facility ("Facility") with a \$200.0 million ABL entered into with a syndicate of financial institutions. The amount of borrowings available to the Company under the ABL is determined by its applicable borrowing base from time to time. The borrowing base is determined by calculating a percentage of eligible trade accounts receivable, inventories and property, plant, and equipment. The ABL is priced at libor plus a loan margin determined from a pricing grid. The loan margin declines as unused availability increases. The loan grid ranges from 1.50% to 2.25%. Unencumbered real estate is subject to a negative pledge in favour of the ABL lenders. However, the Company retains the ability to secure financing on all or a portion of its owned real estate and have the negative pledge of the ABL lenders subordinated up to \$35.0 million of real estate mortgage financing. As of December 31, 2010, the Company had secured real estate mortgage financing of \$4.6 million, leaving the Company the ability to obtain an additional \$30.4 million of real estate mortgage financing.

With the March 2008 refinancing of the Facility, the Company has no significant debt maturities until March 2013, when the ABL matures. The Company's remaining \$118.7 million Senior Subordinated Notes mature in August 2014.

The ABL has a financial covenant, a fixed charge ratio of 1.0 to 1.0. The ratio compares EBITDA (as defined in the ABL agreement) less capital expenditures and pension plan payments in excess of pension plan expense to the sum of debt service and the amortization of the value of machinery and equipment included in the borrowing base. The financial covenant becomes effective only when unused availability drops below \$25.0 million. Although not in effect, the Company was in compliance with the fixed charge ratio covenant as of December 31, 2010. As of December 31, 2010 the fixed charge ratio was 1.16. To date in the first quarter of 2011, the Company has maintained availability in excess of \$25.0 million and believes it will remain above the \$25.0 million threshold of unused availability during 2011.

The Company relies upon the funds generated from operations and funds available under its ABL to meet working capital requirements and anticipated obligations under its ABL and the Senior Subordinated Notes and to finance capital expenditures for the foreseeable future. The amount of borrowings under the Company's ABL increased by \$2.6 million from \$85.4 million as of December 31, 2009 to \$88.0 million as of December 31, 2010. As of December 31, 2010, the Company had cash and unused availability under its ABL totalling \$43.0 million, the amount of which would have been \$56.2 million if the Company had not been required to post a bond of \$13.2 million related to the ITI litigation discussed above. Due to a reduced verdict, subsequent to December 31, 2010, the bond related to the ITI litigation was replaced with a bond in the amount of \$1.0 million. As of March 21, 2011 cash and unused availability under the ABL exceeded \$44 million, the amount of which would have exceeded \$45 million if the Company had not been required to post a bond of \$1.0 million related to the ITI litigation.

## Outlook

The Company anticipates sequentially slightly higher sales and sequentially higher Adjusted EBITDA in the first quarter of 2011 compared to the fourth quarter of 2010. Sales and Adjusted EBITDA are both expected to be higher in the first quarter of 2011 compared to the first quarter of 2010. The closure of the Brantford, Ontario facility is expected to result in an annualized increase in EBITDA of about \$4 million once this facility is closed, even though it is expected to negatively impact annualized sales by about \$10 million. Please see the section entitled "EBITDA" below for the Company's definition of EBITDA and Adjusted EBITDA and a reconciliation of these non-GAAP financial measures.

## Results of Operations

The following discussion and analysis of operating results includes adjusted financial results for the three years ended December 31, 2010. A reconciliation from the operating results found in the consolidated financial statements to the adjusted operating results discussed herein, a non-GAAP financial measure, can be found in the Adjusted Consolidated Earnings (Loss) tables set forth above.

Included in this MD&A are references to events and circumstances which have influenced the Company's quarterly operating results presented in the table of Consolidated Quarterly Statements of Earnings set forth above.

The net loss for 2010 was \$56.4 million compared to a net loss of \$14.4 million for 2009. The net loss for 2010 includes:

- Gross margin compression resulting from raw material cost increases;
- A change in the valuation allowance of future tax assets of \$37.8 million, which included a \$31.9 million increase in the fourth quarter with respect to the US jurisdiction;
- Facility closure costs of \$8.1 million, including \$7.4 million related to the Brantford, Ontario manufacturing facility closure; and
- Asset impairments of \$4.0 million, including \$3.9 million related to the lumber film automatic wrapping machines and related assets.

The net loss for 2009 was \$14.4 million compared to a net loss for 2008 of \$92.8 million. The net loss for 2009 includes a \$1.1 million charge for the closure of the Company's manufacturing facility in Hawkesbury, Ontario, Canada. The net loss for 2008 includes a \$66.7 million impairment of goodwill and \$6.0 million of refinancing expense related to the refinancing of the Company's Facility with the ABL.

## Sales

The Company's sales for 2010 were \$720.5 million, a 17.1% increase compared to \$615.5 million for 2009. Sales for 2009 were \$615.5 million, a 16.5% decrease compared to \$737.2 million for 2008. Sales volume increased approximately 9% and selling prices increased approximately 8% during the year 2010 compared to the year 2009.

Sales for the fourth quarter of 2010 totalled \$180.1 million, a 12.0% increase compared to \$160.8 million for the fourth quarter of 2009. Sales volume increased approximately 1% and selling prices increased approximately 11% during the fourth quarter of 2010

compared to the fourth quarter of 2009. The increase in sales was primarily attributable to higher selling prices which partially recovered raw material cost increases incurred during the latter half of 2010.

### **Gross Profit and Gross Margin**

Gross profit totalled \$79.6 million in 2010, a decrease of 4.0% from 2009. Gross profit totalled \$82.9 million in 2009, an increase of 6.0% from 2008. Gross margin was 11.0% in 2010, 13.5% in 2009 and 10.6% in 2008. The decrease in both gross profit and gross margin from 2009 to 2010 was due to higher resin-based, adhesive and paper raw material costs and a total of \$4.0 million of asset impairments, including \$3.9 million related to the lumber film automatic wrapping machines and related assets. Gross profit for the fourth quarter of 2010 was \$19.0 million compared to a gross profit of \$20.2 million in the fourth quarter of 2009. Gross margin was 10.6% in the fourth quarter of 2010 and 12.5% in the fourth quarter of 2009. The decline in gross profit for the fourth quarter of 2010 as compared to the fourth quarter of 2009 is primarily attributable to a \$3.9 million asset impairment related to the lumber film automatic wrapping machines and related assets.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses ("SG&A") for the year ended December 31, 2010 totalled \$72.5 million, an increase of \$2.7 million from the \$69.8 million incurred for the year ended December 31, 2009. The 2009 SG&A expenses were up \$1.6 million from \$68.2 million in 2008. As a percentage of sales, SG&A expenses were 10.1%, 11.3% and 9.3% for 2010, 2009 and 2008, respectively.

The increase in SG&A for 2010 as compared to 2009 was primarily due to higher sales, partially offset by the non-recurrence of adjustments made in 2009 with respect to accounting for trade receivables and the medical claim liability.

The increase in SG&A for 2009 as compared to 2008 was primarily due to adjustments made in 2009 with respect to accounting for trade receivables and the medical claim liability.

SG&A expenses totalled \$18.6 million (10.4% of sales), \$20.0 million (12.5% of sales) and \$17.1 million (9.1% of sales), for the fourth quarter of 2010, fourth quarter of 2009, and third quarter of 2010, respectively. The decrease from the fourth quarter of 2009 to the fourth quarter of 2010 was primarily related to the non-recurrence of adjustments made with respect to amounts for trade receivables and the medical claim liability. The increase in SG&A from the third quarter of 2010 to the fourth quarter of 2010 was due to merchandising costs in the consumer channel and higher selling expenses related to annual incentive plans.

Included in SG&A expenses are the costs the Company incurs as a consequence of being a public company. These costs totalled \$1.5 million, \$1.8 million and \$1.3 million for the three years ended December 31, 2010, 2009 and 2008, respectively.

### **Stock-Based Compensation**

For 2010, 2009 and 2008, the Company recorded approximately \$1.0 million, \$1.0 million and \$1.3 million, respectively, in stock-based compensation expense related to options granted to employees.

### **Operating Profit**

This discussion presents the Company's operating profit for 2010, 2009 and 2008. "Operating profit" does not have a standardized meaning prescribed by GAAP in Canada or in the United States but is included herein as the Company's management uses operating profit to measure and evaluate the profit contributions of the Company's product offerings as well as the contribution by channel of distribution.

Because operating profit is a non-GAAP financial measure, other companies may present similar titled items determined with differing adjustments. Presented below is a table reconciling this non-GAAP financial measure with gross profit being the most comparable GAAP measurement. The reader is encouraged to review this reconciliation. Operating profit is defined by the Company as gross profit less SG&A and stock-based compensation expense.

OPERATING PROFIT RECONCILIATION  
(In millions of US dollars)  
(Unaudited)

	Three months ended December 31,		Year ended December 31,		
	2010	2009	2010	2009	2008
	\$	\$	\$	\$	\$
Gross Profit	19.0	20.2	79.6	82.9	78.3
Less: SG&A expenses	18.6	20.0	72.5	69.8	68.2
Less: Stock-based compensation	0.2	0.3	1.0	1.0	1.3
Operating Profit (Loss)	0.2	(0.1)	6.2	12.1	8.8

Operating profit for 2010 amounted to \$6.2 million compared to \$12.1 million for 2009 and \$8.8 million for 2008. The 2010 decrease in operating profit compared to 2009 is primarily due to gross margin compression related to the increased cost of resin-based, adhesive and paper raw materials and to asset impairments of \$4.0 million, including \$3.9 million related to the lumber film automatic wrapping machines and related assets. Operating profit increased in 2009 compared to 2008 by \$3.3 million primarily due to higher gross profit resulting from the non-recurrence of the unprecedented gross margin compression in the fourth quarter of 2008.

The Company's operating profit for the fourth quarter of 2010 was \$0.2 million compared to a loss of \$0.1 million for the fourth quarter of 2009.

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

The Company has decided to terminate the operations of its manufacturing facility located in Brantford, Ontario, Canada. The facility is scheduled to be closed by June 2011 due to the economic consequences of the continuing strike of its unionized workers. As a result of this facility closure, a charge of \$7.4 million was recorded in the fourth quarter of 2010 related to property, plant and equipment, severance, inventory and spare parts and supplies. Various other expenses of between \$1.0 million and \$1.5 million are expected to be recorded when incurred throughout 2011.

Effective November 10, 2009, the Company decided to terminate the operations of its manufacturing facility located in Hawkesbury, Ontario, Canada (the "Closure") as part of its ongoing efforts and objectives to lower costs, enhance customer order fulfillment and effectively optimize inventory investment. The terminated operations were transferred and consolidated into the Company's manufacturing facility located in Truro, Nova Scotia, Canada in the early part of 2010. In connection with this Closure, the Company recorded a severance charge, property, plant and equipment impairments and inventory write-downs totalling approximately \$1.1 million in the fourth quarter of 2009.

The Hawkesbury manufacturing operations were shut down at the end of 2009. The buildings were not sold as of December 31, 2010. Subsequent to December 31, 2010, a sales contract was entered into to sell one of the buildings and new market information became available related to the other building. The sale of the building under contract is expected to be completed during the second quarter of 2011. Accordingly, an additional impairment of \$0.7 million was recorded in the period to reduce the carrying value of these assets to the fair market value less estimated selling costs.

#### Impairment of Goodwill

In accordance with the requirements of the Canadian Institute of Chartered Accountants ("CICA"), which are substantively equivalent to the applicable US standards, in past years the Company performed an annual goodwill impairment test as of December 31. The Company conducted its annual impairment test at December 31, 2008 and concluded that the goodwill attributable to both reporting units as then existing was fully impaired due to the adverse changes in the economic environment in existence at that time and the expectation that many of these factors would not improve in the near-term. Accordingly, the Company wrote-off the balance of the goodwill, amounting to \$66.7 million.

#### Research and Development

Research and development ("R&D") remains an important function within the Company. Taken as a percentage of sales, R&D expenses represented 0.9% for 2010, 0.9% for 2009, and 0.8% for 2008. The Company continues to focus its R&D efforts on new products, new technology developments and new processes and formulations for existing products.

## EBITDA

A reconciliation of the Company's EBITDA, a non-GAAP financial measure, to GAAP net earnings (loss) 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 from operating activities as determined by GAAP. The Company defines EBITDA as net earnings (loss) before (i) income taxes (recovery); (ii) financial expenses, net of amortization (including foreign exchange gain (loss)); (iii) refinancing expense, net of amortization; (iv) amortization of debt issue expenses; (v) amortization of intangibles assets and deferred charges; and (vi) depreciation of property, plant and equipment. Adjusted EBITDA is defined as EBITDA before (i) manufacturing facility closures, restructuring, strategic alternatives and other charges; (ii) impairment of goodwill; (iii) impairment of long-lived assets and other assets; (iv) unprecedented gross margin compression; and (v) write-down on classification as assets held-for-sale. The terms "EBITDA" and "Adjusted EBITDA" do not have any standardized meanings prescribed by GAAP in Canada or in the United States 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 it permits investors to make a more meaningful comparison of the Company's performance between periods presented. In addition, EBITDA and Adjusted EBITDA are used by management and the Company's lenders in evaluating the Company's performance.

### ADJUSTED EBITDA RECONCILIATION TO NET LOSS

(In millions of US dollars)  
(Unaudited)

	Three months ended December 31,		Year ended December 31,		
	2010	2009	2010	2009	2008
	\$	\$	\$	\$	\$
Net Loss – As Reported	(43.4)	(8.5)	(56.4)	(14.4)	(92.8)
Add back:					
Financial expenses, net of amortization (including foreign exchange gain (loss))	3.5	2.8	15.1	14.6	18.7
Refinancing expense, net of amortization					2.9
Income taxes	30.3	2.7	31.9	4.0	3.4
Depreciation and amortization	9.2	9.7	37.4	37.7	39.6
EBITDA	(0.4)	6.7	27.9	41.9	(28.2)
Impairment of long-lived assets and other assets	3.9	0.1	4.0	0.1	0.4
Gross margin compression					16.6
Write-down of asset held-for-sale	0.1		0.7		
Manufacturing facility closures, restructuring, and other charges	8.1	1.1	8.1	1.1	
Impairment of goodwill					66.7
Adjusted EBITDA	11.7	7.9	40.7	43.1	55.5

EBITDA was \$27.9 million for 2010, \$41.9 million for 2009, and negative \$28.2 million for 2008. Adjusted EBITDA was \$40.7 million, \$43.1 million, and \$55.5 million for 2010, 2009 and 2008, respectively. The Company's EBITDA for the fourth quarter of 2010 was negative \$0.4 million compared to \$6.7 million for the fourth quarter of 2009. The Adjusted EBITDA was \$11.7 million for the fourth quarter of 2010 as compared to \$7.9 million for the fourth quarter of 2009. The higher adjusted EBITDA for the fourth quarter of 2010 compared to the fourth quarter of 2009 is primarily the result of higher sales.

### Financial Expenses

Financial expenses increased 4.1% to \$16.4 million for 2010 from \$15.7 million for 2009. The increase in financial expenses for 2010 was due to a non-recurring \$0.8 million gain in 2009 related to the repurchase of Senior Subordinated Notes. The Notes had a notional value of \$6.3 million and were purchased at a discount in the fourth quarter of 2009.

Financial expenses decreased 39.1% to \$15.7 million for 2009 as compared to \$25.8 million for 2008. Included in the first quarter of 2008 was a \$6.0 million refinancing expense related to the refinancing of the Facility. The refinancing expense includes a \$2.9 million loss on the settlement of two interest rate swap agreements. This loss was reclassified from accumulated other comprehensive income as a result of the discontinuance of the cash flow hedges because the debt being hedged was refinanced and the hedging relationship was thereby terminated. Also included in refinancing expense was \$3.1 million of accelerated amortization of debt issue expense incurred in connection with securing the Facility in 2004. Financial expenses for 2009 had no such refinancing expense included.

Financial expenses for the fourth quarter of 2010 totalled \$3.9 million, a \$0.8 million increase from financial expenses in the fourth quarter of 2009. The increase was due to the net gain on the repurchase of Senior Subordinated Notes in the fourth quarter of 2009 totalling \$0.8 million.

## Income Taxes

In the past three years, the Company's effective income tax rate has been influenced primarily by a lower income tax rate applicable to its foreign-based taxable income, claiming of allowable manufacturing and processing deductions, accounting for transactions that resulted in permanent differences and changes in the valuation allowance. The Company's income tax expense for the year ended December 31, 2010 was mainly impacted by an increase in the valuation allowance.

In assessing the recoverability of future income tax assets, the Company's management determines, at each balance sheet date, whether it is more likely than not that a portion or all of its future income tax assets will be realized. In accordance with GAAP, this determination is based on the Company's management's quantitative and qualitative assessments and the weighing of all available evidence, both positive and negative. Such evidence includes, among others, the scheduled reversal of future income tax liabilities, projected future taxable income, and the implementation of tax planning strategies. However, GAAP places a significant weight on the Company's historical financial performance when making such a determination. Accordingly, the expectation of generating taxable income in future periods may not be sufficient to overcome the negative presumption associated with historical and cumulative operational losses.

Accordingly, as of December 31, 2010, while the Company's management is projecting a positive outlook from increased sales, the implementation and realization of cost reduction measures, and the continued increase in sales of new products with higher gross margins, the Company's management must consider the significant weight that GAAP places on historical cumulative operational losses in determining its valuation allowance. As such, for the year ended December 31, 2010, the Company recorded an additional valuation allowance of \$33.4 million related to its future income tax assets in the US jurisdiction and \$4.4 million against its future income tax assets in the Canadian jurisdiction. These future income tax assets remain available, and the Company expects to use them to reduce taxable income in future periods. When these future income tax assets are used, or when the valuation allowance is reversed, if sooner, the Company will record the related benefit in its consolidated earnings.

During the three months ended December 31, 2010, the Company recorded a \$0.8 million charge to its consolidated earnings due to a decrease in operating loss carry-forwards in the Canadian jurisdiction as a result of an income tax audit for the fiscal years 2004, 2005 and 2006. As of December 31, 2010, the Company has \$40.2 million (CDN\$40.2 million) of Canadian operating loss carry-forwards expiring in 2014 through 2030, including \$21.0 million (CDN\$21.0 million) for which no valuation allowance is recorded, and \$208.1 million of US federal and state operating losses expiring in 2012 through 2010, for which a full valuation allowance is recorded.

## Net Loss

For 2010, the Company posted a net loss of \$56.4 million as compared to a net loss of \$14.4 million in 2009 and \$92.8 million in 2008. The significant increase in net loss for the year ended December 31, 2010 in comparison to 2009 is mainly due to:

- Gross margin compression resulting from raw material cost increases;
- A change in the valuation allowance of future tax assets of \$37.8 million, which included a \$31.9 million increase in the fourth quarter with respect to the US jurisdiction;
- Facility closure costs of \$8.1 million, including \$7.4 million related to the Brantford, Ontario manufacturing facility closure; and
- Asset impairments of \$4.0 million, including \$3.9 million related to the lumber film automatic wrapping machines and related assets.

The Company reported a net loss of \$43.4 million for the fourth quarter of 2010 as compared to a net loss of \$8.5 million for the fourth quarter of 2009. The increase in the net loss for the fourth quarter of 2010 compared to the fourth quarter of 2009 was primarily due to a change in the valuation of future tax assets, facility closure costs, and an impairment charge related to the lumber

film automatic wrapping machines and related assets amounting to \$32.7 million (\$31.9 million with respect to the US jurisdiction and \$0.8 million with respect to the Canadian tax audit), \$8.1 million and \$3.9 million, respectively.

Adjusted net earnings, a non-GAAP financial measure (see table set forth on page 7) amounted to a net loss of \$43.7 million for 2010, a net loss of \$13.2 million for 2009, and a net loss of \$3.1 million for 2008. The Company is including adjusted net earnings here because it believes that adjusted net earnings provides a better comparison of results for the periods presented since it does not take into account impairment of goodwill, impairment of long-lived assets, unprecedented gross margin compression, refinancing expense and manufacturing facility closure, restructuring, and other costs in each period.

Adjusted net earnings does not have any standardized meaning prescribed by GAAP in Canada or the United States and is therefore unlikely to be comparable to similar measures presented by other issuers. A reconciliation of adjusted net earnings to net earnings, being the most comparable measurement under GAAP, is set forth on page 7. The reader is encouraged to review this reconciliation.

Net earnings reported in accordance with Canadian GAAP conforms in all material respects to amounts that would have to be reported had the consolidated financial statements been prepared in accordance with US GAAP, with the exception that US GAAP does not permit recognition of foreign exchange gains or losses as a result of a partial reduction in investment in foreign self-sustaining operations. Consequently, in accordance with US GAAP, net earnings in 2010 would be a net loss of approximately \$56.4 million, a net loss of approximately \$14.5 million in 2009, and a net loss of \$93.7 million in 2008.

### **Loss per Share**

Basic and diluted net earnings per share reported in accordance with Canadian GAAP conform in all material respects to amounts that would have been reported had the consolidated financial statements been prepared in accordance with US GAAP, with the exception that US GAAP does not permit recognition of foreign exchange gains or losses as a result of a partial reduction in investments in foreign self-sustaining operations. Consequently, in accordance with US GAAP, basic and diluted loss per share would be \$0.96 in 2010, compared to basic and diluted loss per share of \$0.25 in 2009 and \$1.59 in 2008.

The Company reported a loss per share of \$0.96 both basic and diluted for 2010 as compared to a loss per share of \$0.24 both basic and diluted for 2009. The 2009 loss per share compares to a loss per share of \$1.57 both basic and diluted for 2008. The weighted-average number of common shares outstanding for the purpose of the basic and diluted earnings per share calculations was 59.0 million for 2010, 59.0 million for 2009 and 59.0 million for 2008.

The adjusted earnings per share (see table on page 7) for 2010 was a loss per share of \$0.74 both basic and diluted compared to a loss per share of \$0.22 both basic and diluted for 2009, and a loss per share of \$0.05 both basic and diluted for 2008.

### **Comprehensive Income (Loss)**

Comprehensive income is comprised of net earnings and other comprehensive income. For the years ended December 31, 2010, 2009 and 2008, the Company reported a comprehensive loss of \$51.9 million, income of \$3.5 million and loss of \$127.7 million, respectively. The unfavourable change is mainly attributable to the change in valuation of future tax assets and continued strengthening of the Canadian dollar relative to the U.S. dollar in 2010.

### **Results of Operations by Division**

As a result of the Company's structural, operational, management and reporting realignments during the third quarter of 2010, the Company is no longer required to present operating results at a divisional level. However, in the interest of reporting consistency, the divisional results discussion is included hereinafter.

#### **Results of Operations - Tapes and Films Division**

Sales for 2010 were \$597.6 million, an increase of 16.5% compared to \$512.8 million for 2009. Sales for 2009 were \$512.8 million, a decrease of 13.4% compared to \$592.2 million for 2008. The T&F Division had a sales volume increase of approximately 10% for 2010 and a decrease of approximately 5% for 2009. The remainder of the sales increase in 2010 was largely attributable to selling prices which were approximately 6% higher due to an increase in the costs of resin-based, adhesive and paper raw materials. The sales volume increase in 2010 was across most product lines.

Sales grew sequentially in the second and third quarters of 2010 and decreased in the fourth quarter of 2010 due to historical seasonality and fewer business days.

Sales in the fourth quarter of 2010 totalled \$149.5 million, a 10.5% increase from sales in the fourth quarter of 2009 of \$135.3 million. Sales volume increased approximately 2% during the fourth quarter of 2010 compared to the prior year. The remainder of the sales increase in the fourth quarter of 2010 was largely attributable to selling prices which were approximately 9% higher than the fourth quarter of 2009. The increase in sales volume was across most product lines.

Gross profit totalled \$74.8 million in 2010, a decrease of 2.3% from 2009 gross profit of \$76.5 million. Gross profit totalled \$76.5 million in 2009, an increase of 13.5% from \$67.4 million in 2008. Gross profit represented 12.5% of sales in 2010, 14.9% in 2009, and 11.4% in 2008. The decrease in both gross profit and gross margin was primarily due to higher resin-based, adhesive and paper raw material costs partially offset by higher volume, higher selling prices, manufacturing cost reduction initiatives and sale of new products. While the Company was successful in recovering a portion of the higher raw material costs through selling price increases during the year, the increase did not begin to equal the cost increases until the fourth quarter.

Gross profit for the fourth quarter of 2010 totalled \$20.3 million at a gross margin of 13.6% compared to \$18.8 million at a gross margin of 13.9% for the fourth quarter of 2009. The gross margin for the fourth quarter remained relatively flat year over year and improved from the third quarter of 2010 due to price increases that partially offset the prior increases in costs of resin-based, adhesive and paper raw material costs.

T&F DIVISION ADJUSTED EBITDA RECONCILIATION TO NET EARNINGS	Three months ended		Year ended		
	December 31,		December 31,		
(in millions of US dollars)	2010	2009	2010	2009	2008
(unaudited)	\$	\$	\$	\$	\$
Divisional earnings before income taxes	4.0	1.8	11.6	16.0	8.7
Depreciation and amortization	7.2	7.6	28.8	29.8	29.4
EBITDA	11.1	9.4	40.4	45.8	38.1
Gross margin compression					13.9
Adjusted EBITDA	11.1	9.4	40.4	45.8	52.0

Adjusted EBITDA for the T&F Division for 2010, 2009 and 2008 was \$40.4 million, \$45.8 million and \$52.0 million, respectively. The decrease in Adjusted EBITDA from 2009 to 2010 was primarily attributable to the decrease in gross margin as discussed above. The T&F Division's Adjusted EBITDA for the fourth quarter of 2010 was \$11.1 million compared to \$9.4 million for the fourth quarter of 2009. The increase in Adjusted EBITDA in the fourth quarter of 2010 compared to the fourth quarter of 2009 is primarily the result of an increase in sales.

### Results of Operations - ECP Division

Sales totalled \$123.0 million compared to \$102.6 million for 2009, a 19.8% increase. Sales volume for 2010 increased approximately 2% compared to 2009. The remainder of the increase was largely attributable to selling prices, which were approximately 18% higher due to higher costs of resin-based raw materials. Sales for the fourth quarter were \$30.6 million, representing a 20.0% increase compared to \$25.5 million for the fourth quarter of 2009. Sales volume declined approximately 3% and selling prices increased approximately 23% when compared to the fourth quarter of 2009. Higher costs for resin-based raw materials were the primary reason for the selling price increases.

Gross profit totalled \$4.8 million in 2010, a decrease of 25.0% from 2009 gross profit of \$6.4 million. Gross profit totalled \$6.4 million in 2009, a decrease of 40.7% from \$10.9 million in 2008. Gross profit was 3.9% of sales in 2010, 6.3% in 2009, and 7.5% in 2008. The decrease in both gross profit and gross margin for 2010 was due to asset impairment charges of \$4.0 million, including \$3.9 million related to the lumber film automatic wrapping machines and related assets, which was partially offset by higher sales and gross margin excluding the impairments.

Gross profit for the fourth quarter of 2010 was negative \$1.2 million at a gross margin of negative 4.0% compared to \$1.4 million at a gross margin of 5.5% for the fourth quarter of 2009. The decrease in both gross profit and gross margin for the fourth quarter was due to the \$3.9 million impairment charge for the lumber film automatic wrapping machines and related assets, which was largely offset by higher sales and gross margin excluding the impairment.

ECP DIVISION ADJUSTED EBITDA RECONCILIATION TO NET LOSS					
(in millions of US dollars)					
(unaudited)					
	Three months ended December 31,		Year ended December 31,		
	2010	2009	2010	2009	2008
	\$	\$	\$	\$	\$
Divisional loss before income taxes	(12.7)	(3.9)	(17.0)	(7.2)	(2.8)
Depreciation and amortization	1.7	2.0	7.6	6.6	6.4
EBITDA	(11.0)	(1.9)	(9.4)	(0.6)	3.6
Manufacturing facility closures, restructuring and other charges	8.1	1.1	8.1	1.1	
Impairment of long-lived assets and other assets	3.9		4.0	0.1	
Gross margin compression					2.7
Adjusted EBITDA	1.0	(0.8)	2.7	0.6	6.3

Adjusted EBITDA for the ECP Division for 2010, 2009 and 2008 was \$2.7 million, \$0.6 million, and \$6.3 million, respectively. The increase in Adjusted EBITDA from 2009 to 2010 is due to higher gross profit, excluding the impairments, as described above. The ECP Division's Adjusted EBITDA for the fourth quarter of 2010 was \$1.0 million compared to negative \$0.8 million for the fourth quarter of 2009. The increase in Adjusted EBITDA from the fourth quarter of 2009 to the fourth quarter of 2010 is due to higher gross profit, excluding the impairment, as described above.

### Results of Operations - Corporate

The Company does not allocate the manufacturing facilities closure, restructuring, strategic alternatives or other charges to the two Divisions. These expenses are retained at the corporate level unless they originate within one of the divisions. Stock-based compensation financial expenses and the cost of being a public company are also retained at the corporate level. The unallocated corporate expenses for the three years ended December 31, 2010, 2009, and 2008 totalled \$2.4 million, \$2.9 million, and \$2.6 million, respectively.

### Off-Balance Sheet Arrangements

The Company maintains no off-balance sheet arrangements except for the interest rate swap agreements, forward foreign exchange contracts and letters of credit issued and outstanding discussed in the sections herein entitled "Currency Risk" and "Bank Indebtedness and Credit Facilities" and in Notes 12 and 20 to the Company's consolidated financial statements.

### Related Party Transactions

In 2010, the Company entered into agreements with companies controlled by two of the current members of the Board of Directors. These agreements replaced the advisory services agreements noted below that expired on December 31, 2009. These agreements require the provision of support services that include the duties of Executive Director and Chairman of the Board and qualify as related party transactions in the normal course of operations, which are measured at the exchange amount.

The Executive Director support services agreement was effective from January 1, 2010 through September 30, 2010 and provided for monthly compensation in the amount of \$50,000. This agreement expired on September 30, 2010 and was not replaced. The Chairman of the Board support services agreement is effective from January 1, 2010 through the earlier of June 30, 2011 or the termination of Mr. Eric Baker's services as Chairman of the Board and provides for monthly compensation in the amount of CDN\$25,000. These amounts are in lieu of the fees otherwise paid to Directors for their services.

During the year ended December 31, 2007, the Company entered into three advisory services agreements, two with companies controlled by two current members of the Board of Directors and one with a company controlled by a former senior officer of the Company. The advisory services included business planning and corporate finance activities and qualified as related party transactions in the normal course of operations, which are measured at the exchange amount. Effective December 31, 2008, the Company terminated the advisory service agreement with the company controlled by one of its former senior officers.

The agreements with the companies controlled by the two current members of the Board of Directors were effective through December 31, 2009. The agreements provided for monthly compensation beginning January 2008 in the amounts of \$75,000 and

CDN\$100,000 per month for a minimum of at least three months. Beginning April 1, 2008, the Company's financial commitment relating to the services of two of the three companies was \$50,000 and CDN\$100,000 per month and remained in effect through December 31, 2009. Effective November 2008, the companies controlled by the two current members of the Board of Directors each agreed to a 10% reduction in their monthly compensation. This reduction in compensation continued through November 2009.

In connection with these agreements, the Company recorded a charge amounting to approximately \$0.8 million (\$1.7 million in 2009, \$2.1 million in 2008) in its consolidated earnings for the year ended December 31, 2010 included under the caption selling, general and administrative expenses.

The advisory services agreements also provided for an aggregate performance fee payable on July 1, 2010 based on the difference between the average price of the Company's common shares for the ten trading days prior to July 1, 2010 on the TSX (the "Average Price") and the Canadian offering price included in the Company's 2007 rights offering of CDN\$3.61 multiplied by an aggregate of 2.2 million, provided that the Average Price exceeds CDN\$4.76. This provision survived the expiration of the term of the agreements until July 1, 2010. The average stock price for the ten trading days prior to July 1, 2010 did not exceed CDN\$4.76 therefore no performance fee was paid.

## Liquidity and Capital Resources

### Cash Flow

Cash flows from operations before changes in working capital items decreased in 2010 by \$1.6 million to \$25.4 million from \$27.0 million in 2009. Cash flows from operations before changes in working capital items increased in 2009 by \$1.9 million to \$27.0 million from \$25.1 million in 2008. The decrease was due to lower profitability before non-cash items as discussed above. Cash flows from operations before changes in working capital items for the fourth quarter of 2010 was \$6.6 million compared to \$3.5 million for the fourth quarter of 2009. The increase was due to the increase in profitability before adjustments related to non-cash items as discussed above.

In 2010, the Company generated cash flows from operating activities of \$12.0 million compared to cash flows from operating activities of \$34.9 million in 2009. In 2008, the Company generated cash flows from operating activities of \$20.8 million. The Company generated cash flows from operating activities in the fourth quarter of 2010 of \$5.4 million compared to \$24.5 million for the fourth quarter of 2009. An increase in cash flows from operations before changes in working capital items of \$3.1 million was offset by an increase in cash used for working capital of \$22.3 million. The increase in cash used for working capital was primarily due to accounts payable increasing in the fourth quarter of 2009 as compared to a decrease in in the fourth quarter of 2010. This change was mainly due to the timing of payments made by the Company in order to obtain early payment discounts.

In 2010, changes in working capital items resulted in \$13.3 million in net cash usage which was largely due to increased sales and gross margin compression. The most significant use of cash was an increase in inventories of \$15.2 million. The most significant source of cash was a \$15.8 million increase in accounts payable and accrued liabilities. Changes in working capital items resulted in \$1.2 million in net cash usage in the fourth quarter of 2010. During the fourth quarter, trade accounts receivable provided \$11.8 million of cash, inventories used \$1.8 million of cash and accounts payable and accrued liabilities used \$11.0 million of cash. There are changes in non-cash working capital items between the balance sheet dates that are not reflected in the cash flows. These changes are the impact of foreign currency translation adjustments between balance sheet dates and do not have an impact on changes in working capital items presented in the consolidated cash flows statements.

In 2009, non-cash working capital items used \$7.9 million in net cash flow. An increase in inventory used \$16.3 million in net cash flow, \$3.2 million was used by trade receivables, and \$11.7 million was provided by an increase in accounts payable and accrued liabilities.

Cash used in investing activities was \$15.5 million for 2010 as compared to \$12.9 million for 2009 and \$21.8 million for 2008. These investing activities include a use of funds for property, plant and equipment of \$8.6 million for 2010, \$13.1 million for 2009 and \$21.0 million for 2008. Other assets used \$2.9 million during 2010, and provided \$0.1 million during 2009 and \$0.8 million in 2008. Cash flows used in investing activities was \$6.6 million for the fourth quarter of 2010 as compared to \$3.2 million for the fourth quarter of 2009, an increase of \$3.4 million.

Cash flows provided by financing activities totalled \$4.0 million in 2010 due to an increase in long-term debt under the ABL. Cash flows from financing activities used \$34.3 million in 2009 compared to \$2.4 million provided in 2008.

Free cash flow, a non-GAAP measurement that is defined by the Company as cash flows from operating activities less property, plant and equipment expenditures was \$3.4 million in 2010, compared to \$21.8 million in 2009. The decrease in free cash flow in

2010 was primarily the result of additional cash tied up in inventory and other working capital items. Free cash flow was \$21.8 million in 2009, an increase of \$22.0 million from negative \$0.2 million in 2008. The Company is including free cash flow because it is used by Management and investors in evaluating the Company's performance and liquidity. Free cash flow does not have any standardized meaning prescribed by GAAP in Canada or the in United States and is therefore unlikely to be comparable to similar measures presented by other issuers. A reconciliation of free cash flow to cash flow from operating activities, the most directly comparable GAAP measure, is set forth below. The reader is encouraged to review this reconciliation.

**FREE CASH FLOW RECONCILIATION**  
(In millions of US dollars)

	2010	2009	2008
	\$	\$	\$
Cash Flows From Operating Activities	12.0	34.9	20.8
Less: Capital Expenditures	8.6	13.1	21.0
<b>Free Cash Flow</b>	<b>3.4</b>	<b>21.8</b>	<b>(0.2)</b>

**Working Capital**

As of December 31, 2010, working capital stood at \$128.0 million, as compared to \$122.3 million as of December 31, 2009. The increase of \$5.7 million was primarily due to increased sales.

Quick assets, which are the Company's total current assets excluding prepaid expenses, derivative financial instruments, assets held for sale, and future income taxes, increased by \$32.6 million during 2010 to a level of \$207.7 million, and decreased by \$24.8 million during 2009 to a level of \$175.1 million. The 2010 increase was primarily due to the increase of cash, trade accounts receivable and inventories. The 2009 decrease was primarily due to the decline in trade accounts receivables and inventories.

The Company's cash liquidity is influenced by several factors, the most significant of which are the Company's profitability and its level of inventory. Historically, the Company has periodically increased its inventory levels when business conditions suggest that it is in the Company's best interest to do so, such as the buying opportunities the Company took advantage of in the fourth quarter of 2009 and 2007 to mitigate the impact of rising raw material costs. The Company expects to continue this practice when circumstances suggest that it is appropriate and when the Company believes it has adequate cash and credit availability to support such strategies. A significant amount of working capital is also held in trade receivables.

One of the metrics the Company uses to measure inventory performance is Days Inventory. One of the metrics the Company uses to measure trade receivables is Days Sales Outstanding ("DSO's"). Days Inventory improved in the fourth quarter of 2010 as compared to the fourth quarter of 2009. DSO's increased in the fourth quarter of 2010 as compared to the fourth quarter of 2009 primarily due to an increase in the mix of sales through the consumer channel. The calculations are shown in the following tables:

	For the Quarter Ended December 31			For the Quarter Ended December 31	
	2010	2009		2010	2009
	\$	\$		\$	\$
Cost of Goods Sold	161.0	140.6	Sales	180.1	160.8
Days in Quarter	92	92	Days in Quarter	92	92
Cost of Goods Sold Per Day	1.75	1.53	Sales Per Day	1.96	1.75
Average Inventories	91.9	80.8	Trade Receivables	86.5	74.2
Days Inventory	52	53	DSO's	44	42

Days Inventory is calculated as follows:

$$\begin{aligned} \text{Cost of Goods Sold} \div \text{Days in Quarter} &= \text{Cost of Goods Sold Per Day} \\ (\text{Beginning Inventory} + \text{Ending Inventory}) \div 2 &= \text{Average Inventory} \\ \text{Average inventory} \div \text{Cost of Goods Sold Per Day} &= \text{Days Inventory} \end{aligned}$$

DSO's is calculated as follows:

$$\begin{aligned} \text{Sales} \div \text{Days in Quarter} &= \text{Sales Per Day} \\ \text{Ending Balance of Trade Receivables} \div \text{Sales Per Day} &= \text{DSO's} \end{aligned}$$

## Financial Risk Management, Objectives and Policies

The Company is exposed to various financial risks including: foreign exchange risk, interest rate risk, credit risk, liquidity risk and price risk resulting from its operations and business activities. The Company's management is responsible for setting acceptable levels of risks and reviewing management activities as necessary.

The Company does not enter into financial instrument agreements, including derivative financial instruments, for speculative purposes.

This MD&A includes the significant highlights, events and transactions which have taken place in the course of the years ended December 31, 2010, 2009 and 2008 with respect to the Company's financial risks and management thereof. For a complete discussion of the Company's financial risks, management policies and procedures and objectives, please refer to Note 20 to the Consolidated Financial Statements as of and for the year ended December 31, 2010.

In 2010, in accordance with the Company's foreign exchange rate risk policy, the Company executed a series of 8 monthly forward foreign exchange rate contracts to purchase an aggregate CAD\$10.0 million beginning in February 2011, at fixed exchange rates ranging from CAD\$1.0260 to CAD\$1.0318 to the US dollar; a series of 6 monthly forward foreign exchange rate contracts to purchase an aggregate CAD\$13.5 million beginning in August 2011, at fixed exchange rates ranging from CAD\$1.0173 to CAD\$1.0223 to the US dollar; and a series of 13 monthly forward foreign exchange rate contracts to purchase an aggregate CAD\$20.0 million beginning in July 2010, at fixed exchange rates ranging from CAD\$1.0610 to CAD\$1.0636 to the US dollar. These forward foreign exchange rate contracts will mitigate foreign exchange rate risk associated with a portion of anticipated monthly inventory purchases of the Company's US self-sustaining foreign operations that are to be settled in Canadian dollars. The Company designated these forward foreign exchange rate contracts as cash flow hedges, effectively mitigating the cash flow risk associated with the settlement of the inventory purchases.

Finally, in 2010, the Company executed a series of 12 monthly forward foreign exchange rate contracts to purchase an aggregate USD\$2.0 million beginning in August 2010, at fixed exchange rates ranging from USD\$1.1870 to USD\$1.1923 to the Euro. These forward foreign exchange rate contracts comply with management's foreign exchange risk policy whereby these forward foreign exchange rate contracts will mitigate the foreign exchange rate risk associated with the Company's translation of foreign generated Euro denominated net earnings. However, these forward foreign exchange rate contracts do not comply with the requirements for hedge accounting and thus have not been designated as such.

In 2009, the Company executed a series of 12 monthly forward foreign exchange rate contracts to purchase an aggregate CAD\$20.0 million beginning in February 2010, at fixed exchange rates ranging from CAD\$1.0934 to CAD\$1.0952 to the US dollar. The Company designated these forward foreign exchange rate contracts as cash flow hedges.

In 2008, the Company executed a series of 36 monthly forward foreign exchange rate contracts to purchase an aggregate CAD\$40.0 million beginning in February 2009, at fixed exchange rates ranging from CAD\$1.1826 to CAD\$1.2808 to the US dollar. The Company designated these forward foreign exchange rate contracts as cash flow hedges.

The Company is exposed to a risk of change in cash flows due to the fluctuations in interest rates applicable on its variable rate ABL. Accordingly, in order to mitigate this risk, in 2008, the Company entered into two interest rate swap agreements designated as cash flow hedges. The terms of these Agreements are as follows:

	Notional amount	Settlement	Fixed interest rate paid
	\$		%
Agreement maturing in September 2011	40,000,000	Monthly	3.35
Agreement matured in October 2009	30,000,000	Monthly	2.89

## Capital Expenditures

Total expenditures in connection with property, plant and equipment were \$8.6 million, \$13.1 million and \$21.0 million for the years 2010, 2009 and 2008, respectively.

Based on current volume and anticipated market demand, the Company believes it has sufficient capacity available to accommodate increases in volumes in most products without additional capital expenditures. In addition, the Company believes

that it is positioned to take advantage of opportunities that may arise to grow its market share in existing products, expand its product offerings and expand its markets.

### Long-Term Debt and Financial Derivatives

As discussed under the section "Liquidity", on March 27, 2008 the Company successfully refinanced its Facility with a \$200.0 million ABL entered into with a syndicate of financial institutions. The amount of borrowings available to the Company under the ABL is determined by its applicable borrowing base from time to time. The borrowing base is determined by calculating a percentage of eligible trade accounts receivable, inventories and machinery and equipment. As of December 31, 2010, the Company had borrowed \$97.5 million under its ABL, including \$9.5 million in letters of credit. As of December 31, 2009, \$88.0 million had been borrowed, including \$2.6 million in letters of credit. When combined with cash and cash equivalents, the Company had total cash and credit availability of \$43.0 million as of December 31, 2010 and \$45.1 million as of December 31, 2009. The decrease in total cash and credit availability between December 31, 2010 and December 31, 2009 included the requirement to post a \$13.2 million bond related to the ITI litigation. Total debt increased by \$4.0 million, from \$217.0 million as of December 31, 2009 to \$221.0 million as of December 31, 2010.

A focus on making only essential capital expenditures and managing working capital, combined with an increase in cash flows from operations before changes in working capital items, allowed the Company to limit the increase in debt to 1.8% despite an increase in sales of 17.1%, significant margin compression and the requirement to post a bond in connection with the ITI litigation. Capital expenditures decreased by 34.4% from \$13.1 million in 2009 to \$8.6 million in 2010. Cash flows from operations before changes in working capital items increased by 1.5% from \$27.0 million for the year 2009 to \$27.4 million for the year 2010. Days Inventory improved from 53 days in the fourth quarter of 2009 to 52 days in the fourth quarter of 2010. DSO's increased from 42 days in the fourth quarter of 2009 to 44 days in the fourth quarter of 2010.

### Contractual Obligations

The Company's principal contractual obligations and commercial commitments relate to its outstanding debt and its operating lease obligations. The following table summarizes these obligations as of December 31, 2010:

Contractual Obligations (in millions of US dollars)	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	\$	\$	\$	\$	\$
Long-Term Debt	217.5	2.4	94.1	119.6	1.4
Capital Lease Obligations	8.1	0.8	1.3	1.2	4.9
Operating Lease Obligations	8.1	2.6	4.4	1.1	
Other Long-Term Liabilities	1.5	0.2		1.3	
<b>Total</b>	<b>235.1</b>	<b>5.9</b>	<b>99.8</b>	<b>123.1</b>	<b>6.3</b>

### Capital Stock and Dividends

As of March 23, 2011 there were 58,961,050 common shares of the Company outstanding.

During the year ended December 31, 2010, 825,000 stock options were granted and 10,000 stock options were exercised.

The Company announced a normal course issuer bid effective May 20, 2010. In connection with this normal course issuer bid, the Company is entitled to repurchase for cancellation up to 2,947,552 of its 58,951,050 common shares issued and outstanding, representing 5% of the Company's common shares issued and outstanding as of that date. The normal course issuer bid will expire in May 2011.

During the years ended December 31, 2010, 2009 and 2008, the Company's common shares repurchased for cancellation were insignificant. The Company believes that the purchase of its own common shares may, in appropriate circumstances, be a responsible investment of available funds on hand.

No dividends were declared on the Company's stock in 2010, 2009 or 2008.

## **Distribution Rights Purchase Agreement**

In August 2008, the Company acquired the exclusive North American rights to a pending patent with respect to an automatic wrapping system. The system is designed to automate the process of wrapping packages of up to 65 feet in length. The technology targets industries such as wood products, which are traditionally manually wrapped. Along with the distribution rights, the Company acquired wrapping machines and existing customer contracts for a total consideration of CDN\$5.5 million.

As part of acquiring the distribution rights, the Company also made future performance commitments, which required additional considerations or penalties if these commitments were not met. However, within the first two years of the purchase agreement, the automatic wrapping system had to achieve certain market acceptance parameters or the Company had the right to renegotiate the future performance commitments with the vendor and if such renegotiation was not concluded on terms satisfactory to the Company, then the future performance commitments would not be binding on the Company. The performance agreements have been amended, most recently on April 9, 2010. The Company's management determined that no additional penalties will be incurred under these agreements because it continues to negotiate and develop remedies with the vendor in light of the adverse market acceptance of the wrapping system machines and related technology.

Circumstances have changed significantly related to the original customer contracts that were purchased in 2008 as well as the prospects for obtaining additional contracts. After evaluating the future prospects for this business, the Company has concluded that the future cash flows related to the automatic wrapping system are less than the book value of these assets. Accordingly, an asset impairment charge of \$3.9 million was recorded in cost of sales during the fourth quarter of 2010.

## **Pension and Post-Retirement Benefit Plans**

The Company's pension and post-retirement benefit plans currently have an unfunded deficit of \$22.8 million as of December 31, 2010 as compared to \$21.0 million at the end of 2009. For 2010 and 2009, the Company contributed \$4.7 million and \$3.4 million, respectively to its funded pension plans and to beneficiaries for its unfunded other benefit plans. The Company may need to divert certain of its resources in the future in order to resolve this funding deficit but expects to meet its pension benefit plan funding obligations in 2011 through cash flows from operations.

## **Critical Accounting Estimates**

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the consolidated balance sheet date and the recorded amounts of revenues and expenses during the year then ended. On an on-going basis, management reviews its estimates. Actual results may differ from those estimates.

Key areas of estimation, where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, are the allowance for doubtful accounts, the ability to use income tax losses and other future income tax assets, allowance for obsolete and slow moving inventories, net realizable value of inventories, useful lives of long-lived assets, the assumptions underlying the Company's pension and post-retirement benefits, stock-based compensation fair value model, accounting for asset retirement obligation, the assumptions inherent in the determination of certain accrued liabilities, the estimated future cash flows and projections in connection with the impairment tests of intangible assets and property, plant and equipment and accounting for contingencies.

Significant changes in the underlying assumptions could result in significant changes to these estimates.

The allowance for doubtful accounts is based on reserves for specific accounts which the Company believes may not be fully recoverable combined with an overall reserve reflective of the Company's historical bad debt experience and current economic conditions.

Establishing and updating the reserve for obsolete and slow moving inventories starts with an evaluation of the inventory on hand as compared to historical and expected future sales of the products. For items identified as slow-moving or unmarketable, the cost of products is compared with their estimated net realizable value and a valuation reserve is established when the cost exceeds the estimated net realizable value.

The Company assesses the recoverability of its long-lived assets using projected future undiscounted cash flows and comparing those cash flows to the net book value of these assets when changes in events and circumstances indicate a possible impairment of certain assets or group of assets.

In assessing the realizability of future income tax assets, the Company's management considers whether it is more likely than not that some portion or all of the future income tax assets will not be realized. The Company's management considers the scheduled reversal of future income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

## **International Financial Reporting Standards ("IFRS")**

In 2008, the Canadian Accounting Standards Board ("AcSB") announced that, as of January 1, 2011, publicly-accountable enterprises will be required to adopt IFRS. Accordingly, the Company will adopt these new standards during its fiscal year beginning on January 1, 2011. When the Company publishes its first IFRS interim consolidated financial statements, it will be required to provide comparative IFRS information for the previous fiscal year. The Transition Date for providing comparative information for the Company is January 1, 2010.

The Company's IFRS transition process has consisted of the following four principle phases:

- 1- Preliminary Assessment and Planning
- 2- Detailed Evaluation
- 3- Definition of the Solution
- 4- Implementation

The Company has completed phase three and is in the process of finalizing the implementation phase. The Company's first consolidated financial statements prepared in accordance with IFRS will be its interim unaudited consolidated financial statements as of March 31, 2011 and the three-month period then ending.

## **IFRS ADOPTION**

Set forth below are the IFRS 1, *First-Time adoption of International Financial Reporting Standards*, optional exemptions and mandatory exceptions we expect to use when converting to IFRS.

### **IFRS Optional Exemptions**

#### **1 Business Combinations**

IFRS 1 provides the option to apply IFRS 3, *Business Combinations*, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company has elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and, accordingly, such business combinations have not been restated.

#### **2 Employee Benefits**

IFRS 1 permits first-time adopters to retrospectively recognize all cumulative actuarial gains and losses deferred under in opening retained earnings at the Transition Date. The Company elected to recognize all cumulative actuarial gains and losses that existed at its Transition Date in opening deficit for all of its employee benefit plans.

#### **3 Cumulative Translation Differences**

Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with International Accounting Standards ("IAS") 21, *The Effects of Changes in Foreign Exchange Rates*, from the date a subsidiary or equity method investee was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at Transition Date. The Company elected to reset all cumulative translation gains and losses to zero in opening deficit as of the Transition Date.

#### **4 Share-Based Payments**

IFRS 2, *Share-Based Payments*, encourages, but does not require application of its provisions to equity instruments granted on or before November 7, 2002, and to any equity instruments granted after November 7, 2002 that had vested by the Transition Date. The Company elected to avail itself of the exemption and applied IFRS 2 only to those equity instruments granted after November 7, 2002 and had not vested by the Transition Date. Further, the Company applied IFRS 2 to all liabilities arising from share-based payment transactions that existed at the Transition Date.

## 5 Borrowing Costs

IAS 23, *Borrowing Costs*, requires an entity to capitalize the borrowing costs related to all qualifying assets for which the commencement date for capitalization is on or after the Transition Date. The Company elected to prospectively apply the provisions of IAS 23 for qualifying assets whose commencement date for capitalization is subsequent to the Transition Date. Therefore, borrowing costs incurred prior to January 1, 2010 have been expensed.

## 6 Changes in Existing Decommissioning, Restoration and Similar Liabilities Included in the Cost of Property, Plant and Equipment

For changes in existing decommissioning, restoration and similar liabilities that occurred before the Transition date, IFRS 1 provides the option to not comply with the requirements of International Financial Reporting Interpretations Committee ("IFRIC") 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The Company elected to not retrospectively recognize year by year changes to liabilities under IFRIC 1 that occurred before the Transition Date. Therefore, the Company measured the obligation as of the Transition Date and recalculated the current net book value of the related asset using the current value of the obligation, and the current discount rate.

## 7 Assets and Liabilities of Subsidiaries

IFRS 1 mandates that when a subsidiary adopts IFRS before the parent, the parent is required to record the assets and liabilities of the subsidiary at the same carrying amount as in the financial statements of the subsidiary. Since one of our subsidiaries has already adopted IFRS, we will elect this exemption and measure the assets and liabilities of the subsidiary at the same carrying amounts as in the financial statements of the subsidiary, after adjusting for consolidation adjustments and for the effects of the business combination in which the parent company acquired the subsidiary.

## 8 Fair Value as Deemed Cost

IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historical valuation under the prior GAAP. We will continue to apply the cost model for property, plant and equipment and will not restate property, plant and equipment to fair value under IFRS.

### IFRS Mandatory Exceptions

#### 1. Hedge Accounting

Hedge accounting can only be applied prospectively from the Transition Date to transactions that satisfy the hedge accounting criteria in IAS 39, *Financial Instruments: Recognition and Measurement*, at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. As a result, only hedging relationships that satisfied the hedge accounting criteria as of the Transition Date are reflected as hedges in the Company's results under IFRS. Any derivatives not meeting the IAS 39 criteria for hedge accounting were fair valued and recorded in the statement of financial position as a non-hedging derivative financial instrument.

#### 2. Estimates

The estimates established by the Company in accordance with IFRS at the date of transition are consistent with estimates made for the same date in accordance with GAAP, after adjustments to reflect any difference in applicable accounting principles.

### Significant Changes in Accounting Policies upon Conversion to IFRS

We have identified several differences between IFRS and GAAP accounting policies. Some of the more significant ones at present, as they relate to the Company, are listed in the table below:

Standards	Comparison between GAAP and IFRS	Preliminary Findings to date
Borrowing Costs (IAS 23)	<p>GAAP: Borrowing costs may be capitalized on major projects.</p> <p>IFRS: Capitalization of borrowing costs is required on qualifying assets, which are assets that require an extended period of preparation before they are usable or saleable.</p>	Although the Company has capitalized borrowing costs for several years, this was not always done consistently in a manner compliant with IFRS. Upon transition, the Company will utilize the exemption available under IFRS 1 and will recognize approximately \$5.8 million in previously capitalized borrowing costs in opening deficit.
Property, Plant and Equipment (IAS 16)	<p>GAAP: Component accounting</p> <p>IFRS: Requires that each part of property, plant and equipment that has a cost which is significant in relation to the asset, and whose useful life is different than the asset, must be depreciated separately from the asset.</p> <p>Also, under IFRS assets continue to be depreciated even if they are no longer in use, whereas under GAAP depreciation is suspended when an asset is not being used.</p>	Upon adoption of IFRS, the Company plans to identify certain additional significant parts of an asset with different useful lives and depreciate them separately. Upon transition, the net impact of approximately \$4.3 million will be recognized in opening deficit.
Employee benefits (IAS 19)	<p>GAAP: The Company currently uses the corridor method which permits the recognition of amortized actuarial gains or losses on a consistent basis over time.</p> <p>IFRS: Permits the use of the corridor method.</p>	Upon adoption of IFRS, the Company will start recognizing actuarial gains and losses immediately in a separate statement of comprehensive income without recycling to the income statement in subsequent periods. As a result, actuarial gains and losses will not be amortized to the income statement but rather will be recorded directly in other comprehensive income (loss) of each period. At the Date of Transition, the unrecognized actuarial gains and losses of approximately \$21.6 million will be recognized in opening deficit.
The Effect of Changes in Foreign Exchange Rates (IAS 21)	<p>GAAP: Cumulative translation differences are recorded in other comprehensive income.</p> <p>IFRS: Similar to GAAP, IFRS requires that certain exchange gains and losses are to be recognized in other comprehensive income (loss).</p>	At the date of transition to IFRS, and as permitted by the optional exemption available under IFRS 1, the Company will transfer to opening deficit the balance of the cumulative translation adjustment account of approximately \$51.0 million.
Share Based Compensation (IFRS 2)	<p>GAAP: For grants of share-based awards with graded vesting, the total fair value of the award was recognized on a straight line basis over the employment period.</p> <p>IFRS: Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value, with each grant accounted for on that basis.</p>	Upon adoption of IFRS, the Company will use the exemption permitted under IFRS 2, and apply graded vesting to all unvested stock options issued after November 7, 2002.

Impairment of Assets (IAS 36)	<p>GAAP: Impairment testing for long-lived assets is required whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Impairment testing is initially performed using undiscounted cash flows from an asset or group of assets. If the undiscounted cash flows exceed the carrying amount, no further testing is performed.</p> <p>IFRS: Impairment testing is required at each reporting date when there is any indication of impairment. Impairment tests are performed using discounted cash flows at the individual asset level, or if this cannot be done, for assets grouped into a Cash Generating Unit ("CGU"). In addition, IFRS, unlike GAAP, requires the reversal of an impairment loss in certain circumstances.</p>	Upon adoption of IFRS, the net effect of impairment testing under IFRS will result in the recognition of approximately \$17.0 to \$18.0 million in opening deficit.
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As the Company completes the transition process, additional changes may be identified or the above amounts may be refined.

### Impact of Adoption of IFRS on our Company

The conversion to IFRS will impact the way the Company presents financial results. We have obtained an understanding of IFRS from intensive training and reviewing reconciliations of historical GAAP financial statements. For the past year, we have conducted a number of meetings, seminars and conference calls communicating the changes required by IFRS to the relevant personnel within the Company. With respect to IT, we have made changes to the fixed asset system to permit componentization. With respect to internal and disclosure controls, we are adapting the existing controls to align them with the requirements of IFRS. With respect to business activities, we have not identified any required changes to contractual arrangements, currency management activities, debt covenants or compensation arrangements.

### Disclosure Controls and Internal Control over Financing Reporting

The Chief Executive Officer and Chief Financial Officer of the Company conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting as of December 31, 2010. They concluded based on such evaluation that, as of December 31, 2010 the Company maintained in all material respects, effective disclosure controls and procedures and internal control over financial reporting to ensure that material information regarding this MD&A and other required filings were made known to them on a timely basis.

The Chief Executive Officer and Chief Financial Officer have also reviewed whether any change in the Company's internal control over financial reporting occurred during 2010 that materially affected, or was reasonably likely to materially affect, the Company's internal control over financial reporting and concluded that there was none.

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 IPG, including its Annual Information Form, is filed on SEDAR at [www.sedar.com](http://www.sedar.com) in Canada and on EDGAR at [www.sec.gov](http://www.sec.gov) in the US.

### Forward-Looking Statements

Certain statements and information included in this Management's Discussion & Analysis constitute forward-looking information within the meaning of applicable Canadian securities legislation and the United States Federal Private Securities Litigation Reform Act of 1995.

Forward-looking statements may relate to the Company's future outlook and anticipated events, the Company's business, its operations, financial condition or results. Particularly, statements about the Company's objectives and strategies to achieve those objectives are forward looking statements. While these statements are based on certain factors and assumptions which management considers to be reasonable based on information currently available to it, they may prove to be incorrect. Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied in such forward-looking statements. The risks include, but are not limited to, the factors contained in the Company's filings with the Canadian securities regulators and the U.S. Securities and Exchange Commission. While the Company may elect to, it is under no obligation (and expressly disclaims any such obligation) and does not undertake to update or alter this information at any particular time. This Management's Discussion & Analysis contains certain non-GAAP financial measures as defined under SEC rules, including adjusted net earnings, EBITDA, adjusted EBITDA, adjusted operating results and operating profit. The Company believes such non-GAAP financial measures improve the transparency of the Company's disclosures, provide a meaningful presentation of the Company's results from its core business operations, by excluding the impact of items not related to the Company's ongoing core business operations, and improve the period-to-period comparability of the Company's results from its core business operations. As required by SEC rules, the Company has provided reconciliations of those measures to the most directly comparable GAAP measures.

**Intertape Polymer Group Inc.**  
**Amended and Restated**  
**Consolidated Financial Statements**  
**December 31, 2010 and 2009**

Management's Responsibility for Financial Statements	2 – 3
Management's Report on Internal Control over Financial Reporting	4 – 5
Independent Auditor's Report	6 – 7
Independent Auditor's Report on Internal Control over Financial Reporting	8 – 9
Financial Statements	
Consolidated Earnings	10
Consolidated Comprehensive Income (Loss)	11
Consolidated Shareholders' Equity	12 – 13
Consolidated Cash Flows	14
Consolidated Balance Sheets	15
Notes to Consolidated Financial Statements	16 – 70

## **Management's Responsibility for Financial Statements**

The consolidated financial statements of Intertape Polymer Group Inc. and other financial information are the responsibility of the Company's management and have been examined and approved by its Board of Directors. These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts that are based on management's best estimates and judgments. The selection of accounting principles and methods is management's responsibility.

Management is responsible for the design, establishment and maintenance of appropriate internal control and procedures over financial reporting, to ensure that financial statements for external purposes are fairly presented in conformity with generally accepted accounting principles. Pursuant to these internal control and procedures, processes have been designed to ensure that the Company's transactions are properly authorized, the Company's assets are safeguarded against unauthorized or improper use, and the Company's transactions are properly recorded and reported to permit the preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles.

Management recognizes its responsibility for conducting the Company's affairs in a manner to comply with the requirements of applicable laws and for maintaining proper standards of conduct in its activities.

The Board of Directors assigns its responsibility for the consolidated financial statements and other financial information to the Audit Committee, all of whom are non-management and unrelated directors.

The Audit Committee's role is to examine the consolidated financial statements and annual report and once approved, recommend that the Board of Directors approve them, examine internal control over financial reporting and information protection systems and all other matters relating to the Company's accounting and finances. In order to do so, the Audit Committee meets periodically with the external auditors to review their audit plan and discuss the results of their examinations. The Audit Committee is also responsible for recommending the appointment of the external auditors or the renewal of their engagement.

The Company's external independent auditors, Raymond Chabot Grant Thornton LLP were appointed by the shareholders at the Annual Meeting of Shareholders on June 8, 2010, to conduct the integrated audit of the Company's consolidated financial statements, and the Company's internal control over financial reporting. Their reports indicating the scope of their audits and their opinions on the consolidated financial statements and the Company's internal control over financial reporting follow.

**/s/ Gregory A.C. Yull**

Gregory A.C. Yull  
President and Chief Executive Officer

**/s/ Bernard J. Pitz**

Bernard J. Pitz  
Chief Financial Officer

Bradenton, Florida and Montreal, Canada  
March 22, 2011

## **Management's Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of the Company's financial reporting as well as the preparation of financial statements for external reporting purposes in accordance with Canadian generally accepted accounting principles, including a reconciliation to accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the company's financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective can only provide reasonable assurance with respect to financial statements preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2010 based on the criteria established in "*Internal Control – Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2010 based on those criteria.

The Company's internal control over financial reporting as of December 31, 2010 has been audited by Raymond Chabot Grant Thornton LLP, the Company's independent auditors, as stated in their report which follows.

**/s/ Gregory A.C. Yull**

Gregory A.C. Yull  
President and Chief Executive Officer

**/s/ Bernard J. Pitz**

Bernard J. Pitz  
Chief Financial Officer

Bradenton, Florida and Montreal, Canada  
March 22, 2011

## **Independent Auditor's Report**

To the Shareholders of  
Intertape Polymer Group Inc.

### ***Report on the Consolidated Financial Statements***

We have audited the accompanying consolidated financial statements of Intertape Polymer Group Inc. which comprise the consolidated balance sheets as at December 31, 2010, and 2009 and the consolidated statements of earnings, comprehensive income (loss), shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) for the years ended December 31, 2010 and 2008, and in accordance with Canadian generally accepted auditing standards for the year ended December 31, 2009. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the

entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Intertape Polymer Group Inc. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010 in accordance with Canadian generally accepted accounting principles.

### ***Other Matter***

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Intertape Polymer Group Inc.'s internal control over financial reporting as of December 31, 2010, based on the criteria established in "*Internal Control – Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 22, 2011, expressed an unqualified opinion on Intertape Polymer Group Inc.'s internal control over financial reporting.

*Raymond Chabot Grant Thornton LLP<sup>1</sup>*

Montreal, Canada  
March 22, 2011

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<sup>1</sup> Chartered accountant auditor permit no. 8620

## **Independent Auditor's Report on Internal Control over Financial Reporting**

To the Shareholders of  
Intertape Polymer Group Inc.

We have audited Intertape Polymer Group Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in "*Internal Control — Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

### ***Management's Responsibility***

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control over Financial Reporting.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the Company's internal control over financial reporting.

**Definition of internal control over financial reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Canadian generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

**Inherent limitations**

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Opinion**

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2010 based on criteria established in "*Internal Control — Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with Canadian generally accepted auditing standards and standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Intertape Polymer Group Inc. for the years ended December 31, 2010 and 2008 and in accordance with Canadian generally accepted auditing standards for the year ended December 31, 2009 and our report dated March 22, 2011 expressed an unqualified opinion thereon.

*Raymond Chabot Grant Thornton LLP<sup>1</sup>*

Montreal, Canada  
March 22, 2011

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<sup>1</sup> Chartered accountant auditor permit no. 8620

## Intertape Polymer Group Inc.

### Consolidated Earnings

Years ended December 31, 2010, 2009 and 2008  
(in thousands of US dollars, except per share amounts)

	2010	2009	2008
	\$	\$	\$
<b>Sales</b>	<b>720,516</b>	615,462	737,155
Cost of sales	<b>640,906</b>	532,543	658,900
<b>Gross profit</b>	<b>79,610</b>	82,919	78,255
Selling, general and administrative expenses	<b>72,477</b>	69,820	68,189
Stock-based compensation expense (Note 14)	<b>964</b>	1,037	1,268
Research and development expenses	<b>6,252</b>	5,605	5,610
Financial expenses			
Interest	<b>15,538</b>	15,888	18,365
Other	<b>880</b>	(148)	1,425
Refinancing			6,031
Manufacturing facility closures, restructuring, and other charges (Note 4)	<b>8,089</b>	1,091	
	<b>104,200</b>	93,293	100,888
Loss before impairment of goodwill and income taxes	<b>(24,590)</b>	(10,374)	(22,633)
Impairment of goodwill			66,726
Loss before income taxes	<b>(24,590)</b>	(10,374)	(89,359)
Income taxes (recovery) (Note 5)			
Current	<b>(10)</b>	731	(566)
Future	<b>31,865</b>	3,284	4,006
	<b>31,855</b>	4,015	3,440
<b>Net loss</b>	<b>(56,445)</b>	(14,389)	(92,799)
Loss per share (Note 6)			
Basic	<b>(0.96)</b>	(0.24)	(1.57)
Diluted	<b>(0.96)</b>	(0.24)	(1.57)

The accompanying notes are an integral part of the consolidated financial statements and Note 3 provides additional information on consolidated earnings.

## Intertape Polymer Group Inc.

### Consolidated Comprehensive Income (Loss)

Years ended December 31, 2010, 2009 and 2008  
(in thousands of US dollars)

	2010	2009	2008
	\$	\$	\$
Net loss	<b>(56,445)</b>	(14,389)	(92,799)
Other comprehensive income (loss)			
Changes in fair value of interest rate swap agreements, designated as cash flow hedges (net of future income taxes of nil; nil in 2009; \$1,733 in 2008)	<b>(599)</b>	(1,747)	(2,950)
Settlements of interest rate swap agreements, recorded in consolidated earnings (net of income taxes of nil; nil in 2009; \$1,080 in 2008)	<b>1,249</b>	1,812	1,840
Change in fair value of investment in publicly traded securities designated as available-for-sale		1,044	
Gain on sale of investment in publicly traded securities recorded in consolidated earnings		(1,044)	
Changes in fair value of forward foreign exchange rate contracts, designated as cash flow hedges (net of future income taxes of nil; nil in 2009; \$151 in 2008)	<b>1,828</b>	3,640	(257)
Settlements of forward foreign exchange rate contracts, recorded in the consolidated earnings (net of income taxes of nil; nil in 2009)	<b>(869)</b>	(1,489)	
Gain on forward foreign exchange rate contracts recorded in consolidated earnings pursuant to recognition of the hedged item in cost of sales upon discontinuance of the related hedging relationships (net of income taxes of nil; nil in 2009)	<b>(616)</b>	(1,103)	
Reduction in net investment in a foreign subsidiary (Note 3)		(125)	(899)
Changes in accumulated currency translation adjustments	<b>3,514</b>	16,868	(32,644)
Other comprehensive income (loss)	<b>4,507</b>	17,856	(34,910)
<b>Comprehensive income (loss) for the year</b>	<b>(51,938)</b>	3,467	(127,709)

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

# Intertape Polymer Group Inc.

## Consolidated Shareholders' Equity

Years ended December 31, 2010, 2009 and 2008

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

	Common shares		Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
	Number	Amount				
		\$	\$	\$	\$	\$
Balance as at December 31, 2007	58,956,348	348,174	11,856	(67,482)	67,462	360,010
Cumulative impact of accounting changes relating to inventories				(252)		(252)
Balance as at December 31, 2007, as restated	58,956,348	348,174	11,856	(67,734)	67,462	359,758
Stock-based compensation expense			1,268			1,268
Net loss				(92,799)		(92,799)
Changes in fair value of interest rate swap agreements, designated as cash flow hedges					(2,950)	(2,950)
Settlements of interest rate swap agreements, recorded in the consolidated earnings					1,840	1,840
Changes in fair value of forward foreign exchange rate contracts, designated as cash flow hedges					(257)	(257)
Reduction in net investment in a foreign subsidiary					(899)	(899)
Changes in accumulated currency translation adjustments					(32,644)	(32,644)
Balance as at December 31, 2008	58,956,348	348,174	13,124	(160,533)	32,552	233,317
Repurchase of common shares (Note 14)	(5,298)	(31)		13		(18)
Stock-based compensation expense			1,037			1,037
Net loss				(14,389)		(14,389)
Changes in fair value of interest rate swap agreements, designated as cash flow hedges					(1,747)	(1,747)
Settlements of interest rate swap agreements, recorded in consolidated earnings					1,812	1,812
Change in fair value of investment in publicly traded securities designated as available-for-sale					1,044	1,044
Gain on sale of investment in publicly traded securities recorded in the consolidated earnings					(1,044)	(1,044)
Changes in fair value of forward foreign exchange rate contracts, designated as cash flow hedges					3,640	3,640
Settlements of forward foreign exchange rate contracts, recorded in consolidated earnings					(1,489)	(1,489)
Gain on forward foreign exchange rate contracts recorded in consolidated earnings pursuant to recognition of the hedged item in cost of sales upon discontinuance of the related hedging relationships					(1,103)	(1,103)
Reduction in net investment in a foreign subsidiary					(125)	(125)
Changes in accumulated currency translation adjustments					16,868	16,868
Balance as at December 31, 2009	58,951,050	348,143	14,161	(174,909)	50,408	237,803

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

## Intertape Polymer Group Inc. Consolidated Shareholders' Equity

Years ended December 31, 2010, 2009 and 2008

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

	Common shares		Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
	Number	Amount				
		\$	\$	\$	\$	\$
Balance as at December 31, 2009 (balance carried forward)	58,951,050	348,143	14,161	(174,909)	50,408	237,803
Exercise of stock options	10,000	5				5
Stock-based compensation expense			964			964
Net loss				(56,445)		(56,445)
Changes in fair value of interest rate swap agreements, designated as cash flow hedges					(599)	(599)
Settlements of interest rate swap agreements, recorded in consolidated earnings					1,249	1,249
Changes in fair value of forward foreign exchange rate contracts, designated as cash flow hedges					1,828	1,828
Settlements of forward foreign exchange rate contracts, recorded in consolidated earnings					(869)	(869)
Gain on forward foreign exchange rate contracts recorded in consolidated earnings pursuant to recognition of the hedged item in cost of sales upon discontinuance of the related hedging relationships					(616)	(616)
Changes in accumulated currency translation adjustments					3,514	3,514
<b>Balance as at December 31, 2010</b>	<b>58,961,050</b>	<b>348,148</b>	<b>15,125</b>	<b>(231,354)</b>	<b>54,915</b>	<b>186,834</b>

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

# Intertape Polymer Group Inc.

## Consolidated Cash Flows

Years ended December 31, 2010, 2009 and 2008  
(in thousands of US dollars)

	2010	2009	2008
	\$	\$	\$
<b>OPERATING ACTIVITIES</b>			
Net loss	(56,445)	(14,389)	(92,799)
Non-cash items			
Depreciation, amortization and accretion expense	37,368	37,526	36,538
Impairment of goodwill			66,726
Loss on disposal of property, plant and equipment	308	501	532
Charges in connection with manufacturing facility closures, restructuring, and other charges	6,095	1,091	
Write-off of debt issue expenses in connection with debt refinancing			3,111
Write-down of inventories	1,651	1,105	7,703
Reversal of a portion of a write-down of inventories	(10)	(2,082)	
Impairment of property, plant and equipment	1,016	94	424
Write-down on classification as assets held-for-sale	699	123	
Impairment of intangible assets	1,727	32	
Impairment of other assets	1,258		
Future income taxes	31,865	3,284	4,006
Stock-based compensation expense	964	1,037	1,268
Pension and post-retirement benefits funding in excess of amounts expensed	(838)	1,308	(1,479)
Gain on forward foreign exchange rate contracts	(279)	(650)	
Changes in fair value of forward foreign exchange rate contracts upon discontinuance of the related hedging relationships	(1)	3	
Changes in fair value of forward foreign exchange rate contracts for which hedge accounting is not applied	144		
Unrealized foreign exchange loss	(44)	(76)	
Gain on sale of publicly traded securities		(1,044)	
Gain on repurchase of Senior Subordinated Notes		(818)	
Foreign exchange gain resulting from the reduction in net investment in a foreign subsidiary		(125)	(899)
Other	(110)	63	
Cash flows from operations before changes in working capital items	25,368	26,983	25,131
Changes in working capital items			
Trade receivables	(12,201)	3,177	12,310
Other receivables	(1,213)	1,231	(1,491)
Inventories	(15,210)	16,272	(6,556)
Parts and supplies	181	(441)	(1,306)
Prepaid expenses	(679)	(606)	364
Accounts payable and accrued liabilities	15,780	(11,706)	(7,664)
<b>Cash flows from operating activities</b>	<b>12,026</b>	<b>34,910</b>	<b>20,788</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds on the settlements of forward foreign exchange rate contracts upon the discontinuance of the related hedging relationships	647		
Property, plant and equipment	(8,627)	(13,141)	(21,048)
Proceeds on disposal of property, plant and equipment	274	18	3,202
Proceeds on disposal of an asset held-for-sale	1,156		
Proceeds on disposal of investment in publicly traded securities		1,044	
Restricted cash	(5,183)		
Other assets	(2,874)	125	(795)
Intangible assets	(849)	(939)	(3,207)
<b>Cash flows from investing activities</b>	<b>(15,456)</b>	<b>(12,893)</b>	<b>(21,848)</b>
<b>FINANCING ACTIVITIES</b>			
Long-term debt	42,242	13,953	160,119
Exercise of stock options	5		
Repurchase of Senior Subordinated Notes and related expenses		(5,317)	
Debt issue expenses			(2,777)
Repayment of long-term debt	(38,239)	(42,928)	(154,952)
Repurchase of common shares		(18)	
<b>Cash flows from financing activities</b>	<b>4,008</b>	<b>(34,310)</b>	<b>2,390</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>578</b>	<b>(12,293)</b>	<b>1,330</b>
Effect of foreign currency translation adjustments	(281)	574	(1,469)
Cash and cash equivalents, beginning of year	3,671	15,390	15,529
Cash and cash equivalents, end of year	3,968	3,671	15,390
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>			
Interest paid	14,539	15,754	20,264
Income taxes paid	394	548	364

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

# Intertape Polymer Group Inc.

## Consolidated Balance Sheets

December 31, 2010 and 2009  
(in thousands of US dollars)

	2010	2009
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	3,968	3,671
Restricted cash (Note 19)	5,183	
Trade receivables	86,516	74,161
Other receivables (Note 7)	4,270	3,052
Inventories (Note 8)	92,629	79,001
Parts and supplies	15,130	15,203
Prepaid expenses	4,586	3,693
Derivative financial instruments (Note 20)	1,270	1,438
Assets held-for-sale	671	149
Future income taxes (Note 5)	1,765	11,860
	<b>215,988</b>	192,228
Property, plant and equipment (Note 9)	241,445	274,470
Other assets (Note 10)	23,185	21,869
Intangible assets (Note 11)	2,344	3,550
Future income taxes (Note 5)	23,143	43,736
	<b>506,105</b>	535,853
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	85,145	68,228
Installments on long-term debt (Note 12)	2,837	1,721
	<b>87,982</b>	69,949
Long-term debt (Note 12)	218,177	215,281
Pension and post-retirement benefits (Note 16)	10,728	10,200
Derivative financial instruments (Note 20)	898	1,548
Other liabilities (Note 13)	1,486	1,072
	<b>319,271</b>	298,050
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 14)	348,148	348,143
Contributed surplus	15,125	14,161
Deficit	(231,354)	(174,909)
Accumulated other comprehensive income (Note 15)	54,915	50,408
	<b>(176,439)</b>	(124,501)
	<b>186,834</b>	237,803
	<b>506,105</b>	535,853

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

On behalf of the Board of Directors,

/s/ George Bunze

George Bunze, Director

/s/ Gregory Yull

Gregory Yull, Director

# **Intertape Polymer Group Inc.**

## **Notes to Consolidated Financial Statements**

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

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### **1 – GOVERNING STATUTES AND NATURE OF ACTIVITIES**

Intertape Polymer Group Inc. (the “Company”), incorporated under the Canada Business Corporations Act, is based in Montreal, Canada and in Bradenton, Florida, develops, manufactures and sells a variety of specialized polyolefin films, paper and film pressure sensitive tapes and complimentary packaging systems for industrial use and, through wholesalers for retail applications.

The Company's common shares are listed on the Toronto Stock Exchange (“TSX”) in Canada. The Company complies with, and is subject to, the federal laws of Canada, as well as the Canadian securities laws and corporate governance rules applicable to Canadian publicly listed companies, including the rules of the TSX.

In December 2009, the Company filed a notification with the US Securities and Exchange Commission (“SEC”) voluntarily delisting its common shares trading on the New York Stock Exchange (“NYSE”). The delisting from the NYSE did not affect the Company's registration with the SEC.

### **2 – ACCOUNTING POLICIES**

#### **Basis of presentation**

The consolidated financial statements are expressed in US dollars and are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), which, in certain respects, differ from the accounting principles generally accepted in the United States (“US GAAP”), as presented in Note 21.

#### **Accounting estimates and measurement uncertainty**

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the consolidated balance sheet date and the recorded amounts of revenues and expenses during the year then ended. On an ongoing basis, management reviews its estimates based on currently available information. Actual results may differ from those estimates.

Key areas of estimation, where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, are the allowance for doubtful accounts, the ability to use income tax losses and other future income tax assets, allowance for obsolete and slow moving inventories, net realizable value of inventories, useful lives of long-lived assets, the assumptions underlying the Company's pension and post-retirement benefits and stock-based compensation fair value model, accounting for asset retirement obligation, the assumptions inherent in the determination of certain accrued liabilities, the estimated future cash flows and projections in connection with the impairment tests of intangible assets and property, plant and equipment and accounting for contingencies.

Significant changes in the underlying assumptions could result in significant changes to these estimates.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 2 – ACCOUNTING POLICIES (Continued)

#### Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All intercompany accounts and transactions have been eliminated. Foreign exchange gains and losses in connection with intercompany transactions, which are not designated as part of the Company's net investment in its self-sustaining foreign operations, are included in the determination of net earnings for the year.

#### Financial assets and liabilities

Financial instruments are measured at fair value on initial recognition. The measurement of financial instruments in subsequent periods depends on their classification. The classification of the Company's financial instruments in the various classes is presented in the following table:

Class	Financial instruments
Assets held for trading	Cash and cash equivalents Restricted cash
Loans and receivables	Trade receivables Other receivables <sup>(1)</sup> Loan to an officer (Note 10)
Other financial liabilities	Accounts payable Long-term debt

<sup>(1)</sup> Excluding income, sales and other taxes

Assets held for trading are recognized at fair value on the consolidated balance sheet.

Loans and receivables are recorded at amortized cost. Subsequent measurement of trade receivables and loan to an officer are recorded at amortized cost, which usually corresponds to the amount initially recorded less any allowance for doubtful accounts and impairment, respectively. Subsequent measurement of other receivables is recorded at amortized cost using the effective interest method, including any impairment thereof.

Accounts payable are measured at amortized cost using the effective interest method and the gains and losses resulting from their subsequent measurement, at the end of each year, are recognized in net earnings.

Long-term debt is measured at amortized cost using the effective interest method. The amount recorded upon initial recognition corresponds to the notional amount of the long-term debt, representing its fair value, less the related debt issue expenses, with the exception of debt issue expenses incurred in connection with a line of credit or a revolving long-term credit agreement, such as the Company's asset based loan ("ABL"), which are capitalized and amortized, using the straight-line method, over the term of the ABL.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

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### 2 – ACCOUNTING POLICIES (Continued)

#### *Hierarchy of financial instruments*

The Company categorizes its financial instruments, measured at fair value in the consolidated balance sheet, including its financial assets, financial liabilities and derivative financial instruments, into a three-level fair value measurement hierarchy as follows:

Level 1: The fair value is determined directly by reference to unadjusted quoted prices in active markets for identical assets and liabilities. The financial assets included in this level are cash and cash equivalents and restricted cash.

Level 2: The fair value is estimated using a valuation technique based on observable market data, either directly or indirectly. This level includes the Company's derivative financial instruments composed of its interest rate swap agreements and forward foreign exchange rate contracts, which are valued using a pricing model supported by market inputs.

Level 3: The fair value is estimated using a valuation technique based on unobservable data. As at December 31, 2010, the Company does not have any financial assets, financial liabilities or derivative financial instruments, which should be included in this level.

#### **Derivative financial instruments**

The Company uses derivative financial instruments to mitigate or eliminate the risks inherent in certain transactions and identifiable balances that arise in the normal course of business. Derivative financial instruments are primarily utilized by the Company to reduce interest rate risk on its long-term debt and foreign exchange risk on certain of its inventory purchases and foreign generated and denominated net earnings. The Company uses derivative financial instruments to ensure unfavourable fluctuations in cash flows are offset by changes in cash flows from derivative financial instruments. The Company does not enter into derivative financial instruments for trading or speculative purposes.

The Company's policy is to formally designate each derivative financial instrument as a hedge of a specifically identified debt instrument and inventory purchases, including the related settlement thereof. The Company concluded that its derivative financial instruments are effective as cash flow hedges, both at inception and over the term of the instrument, since all critical terms of these derivative financial instruments match the terms of the debt instrument and inventory purchases, including the related settlement thereof, being hedged. The Company formally documents all relationships between the hedging items and the hedged items. The Company also assesses the effectiveness of the hedging relationships each quarter, both prospectively and retroactively.

Interest rate swap agreements are used as part of the Company's program to manage the floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

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### 2 – ACCOUNTING POLICIES (Continued)

Forward foreign exchange rate contracts are used as part of the Company's program to manage the exchange risk associated with certain monthly inventory purchases of the Company's US self-sustaining foreign operations, which are settled in Canadian dollars. Foreign exchange rate gains and losses resulting from the updating of the accounts payable related to these purchases, or the settlement thereof, are included in the determination of net earnings for the year along with the corresponding amounts reclassified from accumulated other comprehensive income representing the changes in fair value of the related forward foreign exchange contracts. Upon the sale of the inventories, any remaining amounts in accumulated other comprehensive income relating to these purchases, are included in the determination of net earnings for the year as an increase or decrease to cost of sales.

The Company also uses forward foreign exchange rate contracts in order to mitigate the foreign exchange rate risk associated with the Company's translation of foreign generated and denominated net earnings. These forward foreign exchange rate contracts do not comply with the requirements for hedge accounting and accordingly, have not been designated as such. Consequently, changes in the fair value of these forward foreign exchange rate contracts are included in the determination of net earnings for the year.

The effective portion of changes in the fair value of a financial instrument designated as a hedge is recognized in other comprehensive income (loss) and gains and losses related to the ineffective portion, if any, are immediately recognized in net earnings with the related hedged item. Amounts previously included as part of accumulated other comprehensive income are reclassified to net earnings with the hedged item in the period during which the hedged item impacts net earnings. Hedge accounting is discontinued prospectively when a derivative instrument ceases to satisfy the conditions for hedge accounting, is sold or liquidated or the Company terminates the designation of the hedging relationship. If the hedged item ceases to exist, unrealized gains or losses recognized in other comprehensive income (loss) are reclassified to net earnings.

#### **Comprehensive income**

Comprehensive income is the change in equity or net assets of the Company during the period from transactions and other instruments and circumstances from non-owner sources and comprises the Company's net earnings and other comprehensive income. Other comprehensive income comprises items that are recognized in comprehensive income, but excluded from the determination of net earnings, primarily including exchange gains and losses on net investments in self-sustaining foreign operations and changes in the fair value of financial instruments designated as cash flow hedges. The components of comprehensive income are presented in consolidated comprehensive income (loss).

#### **Foreign currency translation**

##### *Reporting currency*

The accounts of the Company's operations having a functional currency other than the US dollar have been translated into the reporting currency using the current rate method as follows: assets and liabilities have been translated at the exchange rate in effect at the balance sheet date and revenues and expenses have been translated at the average rate during the year then ended. All translation gains or losses of the Company's net equity investments in these operations have been included in accumulated other comprehensive income in the consolidated balance sheet.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

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### 2 – ACCOUNTING POLICIES (Continued)

#### *Foreign currency translation*

Transactions denominated in currencies other than the functional currency have been translated into the functional currency as follows: monetary assets and liabilities have been translated at the exchange rate in effect at the end of each year and revenues and expenses have been translated at the average exchange rates for each year, except for depreciation and amortization which are translated at the historical rate; non-monetary assets and liabilities have been translated at the rates prevailing at the transaction dates. Exchange gains or losses on financial assets and liabilities are recognized in net earnings.

#### **Revenue recognition**

Revenue from product sales is recognized when there is persuasive evidence of an arrangement (purchase order was received from the customer), the amount is fixed or determinable (pre-established price list with customers), delivery of the product to the customer has occurred (generally, FOB shipping point), there are no uncertainties surrounding product acceptance and collection of the amount is considered probable (credit worthiness of customers is regularly evaluated). Title to the product passes upon shipment of the product. Sales returns and allowances are treated as reductions of sales and are provided for based on historical experience and current estimates.

#### **Research and development**

Research and development expenses are expensed as they are incurred, net of any related investment tax credits, unless the criteria for capitalization of development expenses are met.

#### **Stock options**

The Company has a stock-based compensation plan that grants stock options to employees and directors. Stock-based compensation expense is measured at fair value, as at the date of the grant, and is recognized over the vesting period of the options granted. Any consideration paid by employees and directors on exercise of stock options is credited to capital stock together with any related stock-based compensation expense originally recorded in contributed surplus. Forfeitures are estimated at the time of the grant and are subsequently adjusted to reflect actual events.

#### **Earnings per share**

Basic earnings per share are calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method giving effect to the exercise of stock options. The treasury stock method assumes that any proceeds that could be obtained upon the exercise of options would be used to repurchase common shares at the average market price during the year.

#### **Cash and cash equivalents**

Cash includes cash on account and demand deposits. Cash equivalents (as at December 31, 2010, a term deposit amounting to \$1.4 million (\$3.0 million in 2009)) include liquid instruments that can be converted into a known cash amounts and maturing within less than three months.

#### **Restricted Cash**

Cash is considered restricted when it is subject to restrictions that prevent its use for current purposes.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 2 – ACCOUNTING POLICIES (Continued)

#### Accounts receivable

Credit is extended based on evaluation of a customer's financial condition. For certain customers, the Company may require a (i) cash on delivery arrangement or (ii) collateral. Accounts receivable are stated at amounts due from customers based on agreed upon payment terms, net of an allowance for doubtful accounts.

#### Inventories and parts and supplies

Raw materials, work in process and finished goods are valued at the lower of cost and net realizable value. Cost is determined by the first in, first out method. The cost of work in process and finished goods includes the cost of raw materials, direct labour and manufacturing overhead.

Parts and supplies are valued at the lower of cost and replacement cost, less any allowance for obsolescence.

#### Assets held-for-sale

Assets held-for-sale are presented at the lower of their carrying amount or fair value less cost to sell and are not depreciated or amortized.

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated amortization and the applicable investment tax credits earned and are depreciated over their estimated useful lives or, if lower, over the terms of the related leases using the straight-line method over the following years:

	<u>Years</u>
Buildings and building under capital lease	15 to 40
Manufacturing equipment	5 to 20
Computer equipment and software	3 to 10
Furniture, office equipment and other	3 to 7

The Company follows the policy of capitalizing interest during the construction and preproduction periods as part of the cost of significant property, plant and equipment. Normal repairs and maintenance are expensed as incurred. Expenditures constituting betterment to the assets by way of change in capacities or extension of useful lives are capitalized. Depreciation is not charged on new property, plant and equipment until they are placed into service.

#### Other assets

Debt issue expenses, incurred in connection with the Company's ABL, are capitalized and amortized, using the straight-line method, over the term of the ABL. Other deferred charges are amortized on a straight-line basis over the period of future benefit not exceeding 5 years as at December 31, 2010.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 2 – ACCOUNTING POLICIES (Continued)

#### Intangible assets

Intangible assets are stated at cost less accumulated amortization and are depreciated over their estimated useful lives using the straight-line method over the following years:

	<u>Years</u>
Distribution rights	6
Customer contracts	6
License agreement	5
Software development	5

#### Impairment of long-lived assets

Long-lived assets, such as property, plant and equipment and intangible assets, subject to amortization, are tested for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable when it exceeds the sum of the undiscounted cash flows expected from its use and eventual disposal. In such a case, an impairment loss must be recognized and is equivalent to the excess of the carrying amount of a long-lived asset over its fair value.

#### Transaction costs

Transaction costs with respect to financial instruments not classified as held-for-trading, with the exception of a line of credit or a revolving long-term credit agreement, are recorded as an adjustment to the cost of the underlying financial instruments, when they are recognized, and are amortized using the effective interest rate method.

Transaction costs incurred in connection with the securing of a line of credit or a revolving long-term credit agreement are capitalized as part of other assets, on the consolidated balance sheet, and subsequently amortized, using the straight-line method, over the term of the related long-term credit agreement.

Transaction costs with respect to equity instruments are recorded as a reduction of the proceeds received.

#### Environmental costs

The Company expenses, as incurred, recurring costs associated with managing hazardous substances in ongoing operations.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

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### 2 – ACCOUNTING POLICIES (Continued)

#### Other liabilities

An asset retirement obligation is recorded in connection with the estimated future costs to restore a leased property to the same condition, which existed at the inception of the lease agreement. These costs are based on the lease term, external quotes for similar removal activities and the lease conditions and requirements. A discounted liability is recorded representing the fair value of an asset retirement obligation with a corresponding increase to a long-lived asset. The liability and the corresponding long-lived asset are recorded on the Company's consolidated balance sheet under the captions other liabilities and property, plant and equipment, respectively. The initial recorded asset retirement obligation, which has been discounted using the Company's credit-adjusted risk free rate, are reviewed periodically to reflect the passage of time and changes in the estimated future costs underlying this liability. The Company amortizes the amount capitalized to property, plant and equipment on a straight-line basis over the lease term and recognizes accretion expense in connection with the discounted liability over the same period.

#### Pension and post-retirement benefits

The Company has defined benefit and defined contribution pension plans and other post-retirement benefit plans for its employees in both Canada and the US.

The following policies are used with respect to the accounting for the defined benefit and other post-retirement benefit plans:

- The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and is charged to earnings as services are provided by employees. The calculations take into account management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees, participants' mortality rates and expected health care costs;
- For the purpose of calculating the expected return on plan assets, those assets are valued at the market-related value for certain plans and for other plans, at fair value. Market-related value of assets as at December 31 is determined based on the assets' market value adjusted by a certain percentage, ranging from 20% to 80%, of the assets gains (losses) from the prior four years, resulting in values within 80% to 120% of the assets actual market value. Assets gains (losses) represent the difference between the assets' market value and their expected value. The assets' expected value is determined as a function of the assets' prior year's market value adjusted for contributions, benefits paid and interest rate as at the valuation date;
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees who are active at the date of amendment;
- Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period and from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains (losses) over 10% of the greater of the benefit obligations and the market-related value or the fair value of plan assets is amortized over the average remaining service period of active employees covered by the plans;

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 2 – ACCOUNTING POLICIES (Continued)

- On January 1, 2000, the Company adopted the new accounting standard on employee future benefits using the prospective application method. The Company is amortizing the transitional obligations on a straight-line basis over the average remaining service periods of employees expected to receive benefits under the benefit plans as at January 1, 2000;
- When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement;
- Defined contribution plan accounting is applied to a multiemployer defined benefit plan for which the Company has insufficient information to apply defined benefit plan accounting.

### Income taxes

The Company accounts for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the financial statement values and tax values of assets and liabilities, using substantially enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse. A valuation allowance is recognized to the extent the recoverability of future income tax assets is not considered to be more likely than not.

### Future accounting changes

International financial reporting standards (“IFRS”)

In February 2008, the Canadian Accounting Standards Board confirmed that GAAP for publically accountable enterprises will be converged with IFRS effective for fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to GAAP, but there are significant differences in recognition, measurement and disclosures. The Company will change over to IFRS for its interim and annual financial statements beginning on January 1, 2011.

### 3 – ADDITIONAL INFORMATION REGARDING CONSOLIDATED EARNINGS

	2010	2009	2008
	\$	\$	\$
<b>Interest</b>			
Interest on long-term debt	14,503	15,453	18,079
Amortization of debt issue expenses on long-term debt	1,116	1,094	934
Accretion expense	172	40	
Other interest	58	46	244
Amortization of debt issue expenses on credit facilities			141
Interest capitalized to property, plant and equipment	(311)	(745)	(1,033)
	<u>15,538</u>	<u>15,888</u>	<u>18,365</u>

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 3 – ADDITIONAL INFORMATION REGARDING CONSOLIDATED EARNINGS (Continued)

	2010	2009	2008
	\$	\$	\$
<b>Other</b>			
Foreign exchange gain resulting from the reduction in net investment in a foreign subsidiary <sup>(1)</sup>		(125)	(899)
Foreign exchange loss (gain)	(802)	(46)	1,689
Interest income and other financial expenses	1,432	1,644	635
Gain on sale of investment in publicly traded securities <sup>(2)</sup>		(916)	
Changes in fair value of forward foreign exchange rate contracts for which hedge accounting was not applied (Note 20)	241		
Changes in fair value of forward foreign exchange rate contracts upon discontinuance of the related hedging relationships	9	113	
Gain on repurchase of Senior Subordinated Notes (Note 12)		(818)	
	<u>880</u>	<u>(148)</u>	<u>1,425</u>
<b>Refinancing</b>			
Write-off of debt issue expenses in connection with debt refinancing			3,111
Loss on settlement of interest rate swap agreements			2,920
			<u>6,031</u>
Depreciation of property, plant and equipment	35,168	35,570	35,174
Amortization of other deferred charges	58	106	117
Amortization of intangible assets	854	716	172
Write-down on classification as asset held-for-sale <sup>(3)</sup>	699	123	
Impairment of property, plant and equipment	1,016 <sup>(5)</sup>	94 <sup>(4)</sup>	424
Impairment of intangible assets	1,727 <sup>(5)</sup>	32	
Impairment of other assets <sup>(5)</sup>	1,258		
Loss on disposal of property, plant and equipment	308	501	532
Investment tax credits recorded as a reduction of research and development expenses	123	53	170
Goodwill impairment <sup>(6)</sup>			66,726

(1) In 2009 and 2008, the Company reclassified from consolidated accumulated other comprehensive income, a foreign exchange gain amounting to \$0.1 million and \$0.9 million, respectively, as a result of a partial repayment of notes previously advanced to one of the Company's self-sustaining foreign operations (the "Subsidiary"). This repayment ultimately reduced the Company's net investment in this Subsidiary.

(2) In 2009, the Company sold its investment in publicly traded securities, and accordingly, recorded in its consolidated earnings a non-cash gain amounting to approximately \$1.0 million (\$0.1 million was included under the caption cost of sales).

(3) In 2010, the Company recorded a write-down, included under the caption selling, general and administrative expenses, of approximately \$0.7 million (\$0.1 million in 2009) in connection with assets classified as held-for-sale as a result of such assets being actively marketed.

(4) In 2009, the Company recorded an impairment charge, included under the caption selling, general and administrative expenses, in connection with the properties located at its Hawkesbury, Ontario, Canada manufacturing facility, which was closed. The Company obtained independent appraisals for these assets and concluded that an impairment charge of approximately \$0.1 million was warranted to reflect the expected salvage value, less the cost to sell these assets. As described in Note 4 to these consolidated financial statements, in 2010, the Company recorded an additional impairment amounting to approximately \$0.7 million.

(5) Please refer to Note 11.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 3 – ADDITIONAL INFORMATION REGARDING CONSOLIDATED EARNINGS (Continued)

- (6) As at December 31, 2008, management concluded that the Company's future business activities and underlying markets had suffered adverse consequences in connection with the worldwide credit crisis and economic slowdown and consequently, reduced its related future cash flows and revenue projections. Accordingly, the Company recorded a goodwill impairment charge in its consolidated earnings in the amount of \$66.7 million.

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

#### Year ended December 31, 2010

The following table describes the significant charges incurred by the Company in connection with its restructuring efforts, included in the Company's consolidated earnings for the year ended December 31, 2010 under the caption manufacturing facility closures, restructuring and other charges.

		Impairment of long-lived assets	Severance and other labor related costs	Inventory write-down	Total
		\$	\$	\$	\$
Brantford, Ontario facility closure	(a)	4,386	1,994	1,044	7,424
Hawkesbury, Ontario facility closure	(b)	665			665
		<u>5,051</u>	<u>1,994</u>	<u>1,044</u>	<u>8,089</u>
Balance as at December 31, 2009 included in accounts payable and accrued liabilities			850		850
Manufacturing facility closures, restructuring, and other charges		5,051	1,994	1,044	8,089
Cash payments			(651)		(651)
Non-cash charges		<u>(5,051)</u>		<u>(1,044)</u>	<u>(6,095)</u>
Balance as at December 31, 2010 included in accounts payable and accrued liabilities			<u>2,193</u>		<u>2,193</u>

- (a) Due to the economic consequences of significant and unsustainable losses associated with the continuing strike of its unionized workers, and the Company's management assessment and conclusion that turnaround is unlikely, the Company decided and accordingly committed, in the latter part of 2010, to a plan to close its manufacturing facility in Brantford, Ontario, Canada. The total charge associated with this facility closure amounts to \$7.4 million. This charge includes \$4.4 million associated with the write-down of the facility's property, plant and equipment to salvage value, less the cost to sell, \$1.0 million associated with the write-down of inventories, including parts and supplies, to net realizable value, and \$2.0 million in severance and other labour related costs. Severance and other labour related costs will be paid over a period not exceeding March 2013, depending on the arrangements, rights and obligations of the related employees. The Company also expects to record additional charges in connection with this facility closure ranging from \$1.0 million to \$1.5 million, in future periods.
- (b) In 2010, in connection with the closure of the Hawkesbury, Ontario facility, the Company recorded an additional impairment charge of \$0.7 million, on the remaining assets. These assets are now presented under the caption assets held-for-sale. As at December 31, 2010, the total charge recorded in connection with this facility closure amounted to \$1.8 million.

# **Intertape Polymer Group Inc.**

## **Notes to Consolidated Financial Statements**

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

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### **4 – MANUFACTURING FACILITY CLOSURES, RESTRUCTURING, AND OTHER CHARGES** *(Continued)*

#### **Year ended December 31, 2009**

Effective November 10, 2009, the Company decided to terminate the operations of its manufacturing facility located in Hawkesbury, Ontario, Canada (the "Closure") as part of its ongoing efforts and objectives to lower costs, enhance customer order fulfillment and effectively optimize inventory investment. The terminated operations were transferred and consolidated into the Company's manufacturing facility located in Truro, Nova Scotia, Canada in 2010. In connection with this Closure, the Company incurred severance and other labour related costs amounting to approximately \$1.1 million.

During the year ended December 31, 2009, the Company settled, in non-cash charges and cash payments, previously recorded obligations relating to such activities amounting to nil and \$0.1 million, respectively.

As at December 31, 2009, the Company's outstanding obligation in connection with its manufacturing facility closures, restructuring and other charges, included in accounts payable and accrued liabilities, on the Company's consolidated balance sheet, amounted to approximately \$0.8 million.

#### **Year ended December 31, 2008**

During the year ended December 31, 2008, the Company did not incur any additional costs in connection with its manufacturing facility closures, restructuring and other charges given that the Company had substantially completed all announced activities as at December 31, 2007.

During the year ended December 31, 2008, the Company settled, in non-cash charges and cash payments, previously recorded obligations relating to such activities amounting to approximately \$0.5 million and \$0.8 million, respectively. In addition, and based on newly available information, the Company revised its estimate regarding the site restoration obligation recorded in connection with the Brighton, Colorado manufacturing facility which closed in 2006. This estimate revision resulted in a reduction of the related obligation in the amount of \$0.7 million.

As at December 31, 2008, the Company's outstanding obligation in connection with its manufacturing facility closures, restructuring and other charges, included in accounts payable and accrued liabilities, on the Company's consolidated balance sheet, amounted to approximately \$0.4 million (\$0.3 million and \$0.1 million relating to site restoration and restructuring, respectively).

### **5 – INCOME TAXES**

The reconciliation of the combined Canadian federal and provincial statutory income tax rate to the Company's effective income tax rate is detailed as follows:

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 5 – INCOME TAXES (Continued)

	2010	2009	2008
	%	%	%
Combined Canadian federal and provincial income tax rate	<b>32.8</b>	34.2	34.0
Foreign earnings taxed at higher income tax rates	<b>(3.5)</b>	(1.0)	1.4
Losses accounted for at lower income tax rates	<b>1.4</b>	(1.9)	
Expiration of operating losses	<b>(3.7)</b>	(48.2)	
Impairment of goodwill			(19.0)
Non-deductible expenses	<b>(0.7)</b>	(6.5)	
Impact of other differences	<b>(1.9)</b>	(18.8)	(0.9)
Change in valuation allowance	<b>(153.9)</b>	3.5	(19.3)
Effective income tax rate	<b>(129.5)</b>	(38.7)	(3.8)

The net future income tax assets are detailed as follows:

	2010	2009
	\$	\$
Future income tax assets		
Trade and other receivables	<b>376</b>	335
Inventories	<b>818</b>	779
Property, plant and equipment	<b>16,361</b>	12,001
Accounts payable and accrued liabilities	<b>2,360</b>	1,725
Tax credits, losses carry-forward and other tax deductions	<b>99,046</b>	101,128
Pension and post-retirement benefits	<b>955</b>	676
Goodwill	<b>11,048</b>	11,373
Other	<b>943</b>	1,545
Valuation allowance	<b>(62,486)</b>	(24,633)
	<b>69,421</b>	104,929
Future income tax liabilities		
Property, plant and equipment	<b>43,266</b>	48,658
Pension and post-retirement benefits	<b>1,247</b>	675
	<b>44,513</b>	49,333
Total net future income tax assets	<b>24,908</b>	55,596
Net current future income tax assets	<b>1,765</b>	11,860
Net long-term future income tax assets	<b>23,143</b>	43,736
Total net future income tax assets	<b>24,908</b>	55,596

In assessing the recoverability of future income tax assets, the Company's management determines, at each balance sheet date, whether it is more likely than not that the amount recognized will be realized. In accordance with GAAP, this determination is based on the Company's management's quantitative and qualitative assessments and the weighing of all available evidence, both positive and negative. Such evidence includes, among others, the scheduled reversal of future income tax liabilities, projected future taxable income, and the implementation of tax planning strategies. However, GAAP places a significant weight on the Company's historical performance when making such a determination.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 5 – INCOME TAXES (Continued)

In particular, the expectation of generating taxable income in future periods may not be sufficient to overcome the negative presumption associated with historical cumulative operational losses.

Accordingly, as at December 31, 2010, while the Company's management is projecting a positive outlook from increased sales, the implementation and realization of cost reduction measures, and the continued increase in the sale of new products with higher gross margins, the Company's management must consider the significant weight that GAAP places on historical cumulative operational losses in determining its valuation allowance. As such, for the year ended December 31, 2010, the Company recorded an additional valuation allowance of \$33.4 million against its future income tax assets in the US jurisdiction and \$4.4 million against its future income tax assets in the Canadian jurisdiction. These future income tax assets remain available, and the Company expects to use them to reduce taxable income in future periods. When these future income tax assets are used, or when all or a portion of the valuation allowance is reversed, if sooner, the Company will record the related benefit in its consolidated earnings.

During the year ended December 31, 2009, there was no significant adjustment to the valuation allowance. During the year ended December 31, 2008, the Company recorded a \$10.0 million net increase to its valuation allowance consisting primarily of the following: i) a \$16.5 million increase with respect to the long-term uncertainties inherent in the worldwide credit crisis, ii) a \$5.5 million decrease in connection with the improved financial performance of the Company's Engineered Coated Products Division and the Company's management ability to take advantage of certain income tax planning strategies, and iii) a \$1.0 million decrease as a result of the significant weakening of the Canadian dollar.

The following table presents the year of expiration of the Company's operating losses carried forward as at December 31, 2010:

	Canada		United States
	Federal	Provincial	
	\$	\$	\$
2012			2.0
2014	1.5	1.5	
2015	1.2	1.2	
2018			4.6
2019			15.0
2020			11.9
2021			50.9
2022			33.9
2023			34.8
2024			9.1
2026	3.9	3.9	27.4
2027	5.3	5.3	
2028	2.6	2.6	17.4
2029	11.4	11.4	
2030	14.3	14.3	1.1
	<u>40.2</u>	<u>40.2</u>	<u>208.1</u>

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 5 – INCOME TAXES (Continued)

During the three months ended December 31, 2010, the Company recorded a \$0.8 million charge to its consolidated earnings due to a decrease in operating loss carry-forwards in the Canadian jurisdiction as a result of an income tax audit for the fiscal years 2004, 2005 and 2006. As at December 31, 2010, the Company has \$40.2 million (CAD\$40.2 million) of Canadian operating loss carry-forwards expiring in 2014 through 2030, including \$21.0 million (CAD\$21.0 million) for which no valuation allowance is recorded, and \$208.1 million of US federal and state operating losses expiring in 2012 through 2030, for all of which a valuation allowance is recorded.

### 6 – EARNINGS PER SHARE

	2010 \$	2009 \$	2008 \$
Net loss	(56,445)	(14,389)	(92,799)
Weighted average number of common shares outstanding	58,953,550	58,951,050	58,956,348
Loss per share			
Basic	(0.96)	(0.24)	(1.57)
Diluted	(0.96)	(0.24)	(1.57)

The following number of options were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented:

2010	2009	2008
<u>2,003,974</u>	<u>2,121,909</u>	<u>1,997,680</u>

### 7 – OTHER RECEIVABLES

	2010 \$	2009 \$
Income and other taxes	465	268
Supplier rebates receivable	1,586	1,200
Sales taxes	860	870
Other	1,359	714
	<b>4,270</b>	<b>3,052</b>

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 8 – INVENTORIES

	2010	2009
	\$	\$
Raw materials	25,467	23,713
Work in process	18,336	15,006
Finished goods	48,826	40,282
	<u>92,629</u>	<u>79,001</u>

During the year ended December 31, 2010 the Company recorded a write-down of inventories to net realizable value, which was recognized in costs of sales, of approximately \$1.7 million (\$1.1 million in 2009, and \$7.7 million in 2008).

In addition, during the year ended December 31, 2010, nil (\$2.1 million in 2009, and nil in 2008) of previously recorded write-downs of inventories to net realizable value, were reversed and recognized as a reduction of costs of sales. The Company's management determined that circumstances prevailing at the time of the write-down ceased to exist as a result of increased profitability primarily due to an improved relationship between selling prices and raw material costs.

### 9 – PROPERTY, PLANT AND EQUIPMENT

	2010		
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Land	3,807		3,807
Buildings	78,213	45,606	32,607
Manufacturing equipment	533,803	338,993	194,810
Computer equipment and software	69,358	64,024	5,334
Furniture, office equipment and other	2,718	2,606	112
Construction in progress	4,775		4,775
	<u>692,674</u>	<u>451,229</u>	<u>241,445</u>

  

	2009		
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Land	3,900		3,900
Buildings	80,762	43,208	37,554
Manufacturing equipment	527,587	307,807	219,780
Computer equipment and software	68,732	59,059	9,673
Furniture, office equipment and other	2,855	2,719	136
Construction in progress	3,427		3,427
	<u>687,263</u>	<u>412,793</u>	<u>274,470</u>

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 9 – PROPERTY, PLANT AND EQUIPMENT (Continued)

Included in property, plant and equipment are assets under capital leases, primarily a building and computer hardware, with cost and accumulated amortization of \$11,971 and \$6,626, respectively (\$12,149 and \$6,219, respectively in 2009).

### 10 – OTHER ASSETS

	2010	2009
	\$	\$
Debt issue expenses and other deferred charges, at amortized cost	1,485	2,011
Loan to an officer	108	108
Accrued pension benefit asset (Note 16)	12,346	10,808
Investment tax credits recoverable	6,559	6,291
Funds held in guarantor trust to satisfy future pension obligation	1,468	1,614
Cash surrender value of officer life insurance	1,172	948
Other	47	89
	<u>23,185</u>	<u>21,869</u>

### 11 – INTANGIBLE ASSETS

	2010		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Distribution rights	3,404	2,517	887
Customer contracts	1,266	993	273
License agreement	849	86	763
Software development	431	10	421
	<u>5,950</u>	<u>3,606</u>	<u>2,344</u>
	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Distribution rights	3,319	691	2,628
Customer contracts	1,204	282	922
	<u>4,523</u>	<u>973</u>	<u>3,550</u>

#### *Distribution rights and customer contracts*

In 2008, the Company entered into an Asset Purchase Agreement (the “Asset Agreement”). Under the Asset Agreement, the Company acquired a group of assets (the “Group”) for total consideration of CAD\$5.5 million (the “Purchase Price”). The Group comprised both tangible and intangible assets primarily consisting of wrapping system machines, a distribution rights agreement, and customer contracts. The Company determined the fair value of each of the assets acquired in the Group. The purchase price paid was then allocated to each asset acquired, on the basis of the assets’ relative fair value.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 11 – INTANGIBLE ASSETS (Continued)

Under the Agreement, the Company committed to distribute and sell specialized wrapping system machines and technology and to attain specific thresholds in this respect over a period of 61 months terminating in September 2013 (the “Commitment”). In 2010, the Company renegotiated with the vendor the period over which the Commitment must be attained. Accordingly, the Commitment period was extended to September, 2018.

Within the first two years of the Agreement, the wrapping system machines acquired had to have attained certain market acceptance parameters or the Company had the right to renegotiate the Commitment with the vendor. If such renegotiation was not concluded on terms satisfactory to the Company, and if the vendor remained unable to resolve the issues to the satisfaction of the Company, then the Commitment would be relieved.

Effective September 30, 2009, and due to the adverse economic conditions impacting the lumber wrap film market targeted under the Asset Agreement, the Company did not meet the performance criteria included in the first milestone of the Asset Agreement. Accordingly, the Company recorded a charge amounting to \$0.4 million representing the penalties due to the vendor.

At this time and notwithstanding that the Company and the Vendor have mutually put each other in default under the agreements, the Company’s management determined that no additional penalties are likely to be incurred under these agreements because it continues to negotiate and develop remedies with the vendor in light of the adverse market acceptance of the wrapping system machines and related technology.

In addition, the Company’s management revised its projection of expected cash flows from the distribution and sale of specialized wrapping system machines and related technology, and determined that the related tangible and intangible assets were impaired. Consequently, the Company recorded impairment charges under the caption of cost of sales, as follows:

*Intangible assets:*

- \$1.2 million for distribution rights;
- \$0.5 million for customer contracts;

*Property, plant and equipment:*

- \$1.0 million for wrapping system machines;

*Other assets:*

- \$1.2 million for specific deposits on the future manufacturing of wrapping system machines; and
- \$0.1 million for deferred charges incurred in connection with the Asset Agreement.

*License agreement*

In June 2010, the Company entered into a license agreement under which the Company will be entitled to purchase certain finished goods for distribution to its customers. The terms and conditions of this license agreement call for an initial payment in the amount of \$325,000 followed by ten quarterly instalments of \$62,500, commencing on October 1, 2010. Accordingly, the Company recorded an intangible asset in the amount of \$0.8 million and corresponding liabilities in the amount of \$0.4 million and \$0.4 million on its consolidated balance sheet under the captions accounts payable and accrued

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 11 – INTANGIBLE ASSETS (Continued)

liabilities and other liabilities, respectively. This asset is being amortized using the straight-line method over its useful life of 5 years.

### 12 – LONG-TERM DEBT

Long-term debt consists of the following:

	2010	2009
	\$	\$
Senior subordinated notes (a) <sup>(1)</sup>	116,169	115,600
Asset-based loan (b)	87,988	85,389
Obligations under capital leases (c)	6,089	6,496
Term debt (d)	6,205	7,796
Mortgage loan (e)	4,563	1,721
	<u>221,014</u>	<u>217,002</u>
Less: Instalments on long-term debt	2,837	1,721
	<u>218,177</u>	<u>215,281</u>

<sup>(1)</sup> The senior subordinated notes are presented net of related debt issue expenses that are amortized using the effective interest rate method amounting to \$2.5 million (\$3.1 million in 2009).

Long-term debt repayments are due as follows:

	Obligations under capital leases	Other long-term loans
	\$	\$
2011	754	2,353
2012	647	2,410
2013	609	91,678
2014	592	119,337
2015	572	256
Thereafter	4,910	1,422
Total payments	<u>8,084</u>	<u>217,456</u>
Interest expense included in minimum lease payments	1,995	
Total	<u>6,089</u>	<u>217,456</u>

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

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### 12 – LONG-TERM DEBT (Continued)

#### (a) Senior subordinated notes

Senior subordinated notes bearing interest at 8.5%, payable semi-annually on February 1 and August 1. The principal is due on August 1, 2014. The effective interest rate of the Senior Subordinated Notes is 9.20%.

The Company and all of its subsidiaries, which are all wholly-owned directly or indirectly by the Company, other than the subsidiary issuer, have guaranteed the senior subordinated notes. The senior subordinated notes were issued and the guarantees executed pursuant to an indenture dated July 28, 2004. All of the guarantees are full, unconditional, joint and several. There are no significant restrictions on the ability of the Company or any guarantor to obtain funds from its subsidiaries by dividend or loan. The Company, on a non-consolidated basis, has no independent assets or operations. The subsidiary issuer is an indirectly wholly-owned subsidiary of the Company and has nominal assets and no operations.

#### *Repurchase*

In 2009, the Company repurchased \$6.3 million of its outstanding senior subordinated notes. Accordingly, the Company recorded a gain on repurchase amounting to approximately \$0.8 million in its consolidated earnings for the year ended December 31, 2009. The gain on repurchase was computed net of the proportionate amount of debt issue expenses incurred at the time the senior subordinated notes were initially issued and the related repurchase fees amounting to \$0.2 million.

#### (b) Asset-based loan

In 2008, the Company secured a five-year, \$200.0 million asset based loan (“ABL”) entered into with a syndicate of financial institutions. In securing the ABL the Company incurred debt issue expenses amounting to approximately \$2.8 million, which are presented as part of other assets. The ABL bears interest at LIBOR plus a premium varying between 150 and 225 basis points depending on the loan’s remaining availability (200 basis points as at December 31, 2010, 200 basis points in 2009). As at December 31, 2010, the effective interest rate on the ABL was 3.77% (3.70% in 2009), taking into account the effect of the interest rate swap agreements described in Note 20.

The amount of the borrowing available to the Company under the ABL is determined by its applicable borrowing base from time to time. The borrowing base is calculated as a function of a percentage of eligible trade receivables, inventories and property, plant and equipment as defined in the ABL agreement.

Under the ABL loan agreement, the Company’s remaining unencumbered real estate is subject to a negative pledge in favour of the ABL lenders. However, the Company retains the ability to secure financing, on all or a portion of, its owned real estate thereby subordinating the negative pledge to the ABL lenders up to an amount of \$35.0 million. During the years ended December 31, 2010 and 2008, the Company obtained a \$3.0 million and \$1.8 million mortgage financing on its owned real estate located in Danville, Virginia and Bradenton, Florida, respectively. As at December 31, 2010, \$30.4 million of real estate mortgage financing remains available to the Company (\$33.2 million in 2009).

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

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### 12 – LONG-TERM DEBT (Continued)

As at December 31, 2010, the ABL's borrowing base amounted to \$136.6 million (\$129.4 million in 2009) of which \$97.5 million (\$88.0 million in 2009) was drawn, including \$9.5 million (including \$8.0 million posted in connection with the bond described in Note 19) (\$2.6 million in 2009) in letters of credit. Accordingly, the Company's unused availability amounted to \$39.1 million (\$41.4 million in 2009).

The ABL is secured by a first priority lien on the Company's, and substantially all of its subsidiaries', trade receivables, inventories and property, plant and equipment, included in the determination of the ABL's borrowing base, with a carrying amount of \$86.5 million, \$92.7 million and \$241.4 million (\$74.2 million, \$79.0 million and \$274.5 million, respectively in 2009), respectively as at December 31, 2010.

The ABL contains one financial covenant, a fixed charge coverage ratio, which becomes enforceable only when unused availability is under \$25.0 million. As at December 31, 2010 and 2009, the Company's availability on its ABL exceeded \$25.0 million and accordingly, the related financial covenant was not applicable.

In line with the Company's interest rate risk policy to mitigate the risk associated with its variable interest rate debt instruments, including its ABL, the Company contracted interest rate swap agreements designated as cash flow hedges. These interest rate swap agreements as well as the Company's interest rate risk policy are described in Note 20.

#### (c) Obligations under capital leases

The Company has obligations under capital leases for the rental of a building, computer hardware, shop equipment and office equipment, bearing interest at rates varying between 4.4% and 8.6% (4.4% to 8.6% as at December 31, 2009), payable in monthly installments ranging from \$90 to \$46,320 (\$90 to \$46,320 in 2009), including interest and maturing on various dates until 2015.

#### (d) Term debt

The Company's wholly-owned subsidiary has a long-term loan agreement, containing two debt instruments, totalling approximately \$6.0 million at December 31, 2010 (€4.5 million), with each instrument bearing interest at a rate of Euribor (ranging between 1.16% and 1.22% in 2010, 1.02% and 1.16% in 2009) plus a premium, 175 basis points as at December 31, 2010 (125 basis points as at December 31, 2009), which could, at the discretion of the lender, be increased semi-annually by 75 basis points. Under the terms of the agreement, only monthly interest payments are required for the first two years followed by eight equal semi-annual principal payments amounting to \$0.3 million and \$0.6 million for each of the instruments commencing on January 2010 and November 2010, respectively. The term debt is secured by a comfort letter issued to the lender by the Company in favour of its wholly-owned subsidiary.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 12 – LONG-TERM DEBT (Continued)

#### (e) Mortgage loans

In 2010, the Company obtained a \$3.0 million mortgage loan on its owned real estate in Danville, Virginia having a net book value of \$2.2 million as at December 31, 2010. The mortgage is for a period of 32 months, bearing interest at an annual fixed rate of 10%. The mortgage requires monthly payments of principal and interest amounting to \$63,741 commencing on November 1, 2010, with the remaining principal and accrued interest due on July 1, 2013.

The Company has a \$1.8 million mortgage loan on its owned real estate located in Bradenton, Florida having a net book value of \$0.6 million as at December 31, 2010 (\$0.7 million in 2009). The mortgage is for a period of 20 years, bearing interest at 7.96%, and thereafter, the applicable interest rate will adjust every three years to a 355 basis point spread over the 10-year Interest Rate Swap published in the daily release of the Federal Reserve. The mortgage requires monthly payments of principal and interest in the amount of \$14,723.

### 13 – OTHER LIABILITIES

	2010	2009
	\$	\$
Asset retirement obligation <sup>(a)</sup>	1,256	1,072
License agreement (Note 11)	230	
	1,486	1,072

#### (a) Asset retirement obligation

In 2009, the Company renegotiated the terms and conditions included in the lease for its operating facility located in Langley, British Columbia, Canada. As a result of the renegotiation the Company has concluded that it is subject to an asset retirement legal obligation, by virtue of a written contract, to restore the leased property to the same condition which existed at the time of the initial lease. This asset retirement obligation (“ARO”) includes, among other costs, the permanent removal of the Company’s manufacturing equipment used in this facility. During 2010, the Company extended the term of this lease.

The assumptions, on which the carrying amount of the ARO is based on, are as follows:

Undiscounted cash flows required to settle the obligation (\$1.2 million in 2009)	\$1.4 million
Timing of payment of the cash flows required to settle the obligation (48 months in 2009)	43 months
Credit-adjusted risk-free rate (15.0% in 2009)	14.14%

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 13 – OTHER LIABILITIES (Continued)

The reconciliation of the Company's ARO liability is as follows:

	<u>2010</u>	<u>2009</u>
	\$	\$
Balance, beginning of period	1,072	
Liabilities incurred	380	936
Revision in estimated cash flows	(430)	
Accretion expense	172	40
Foreign exchange	62	96
Balance, end of period	<u>1,256</u>	<u>1,072</u>

### 14 – CAPITAL STOCK

#### Authorized

Unlimited number of shares without par value

Common shares, voting and participating

Class "A" preferred shares, issuable in series, ranking in priority to the common shares with respect to dividends and return of capital on dissolution. The Board of Directors is authorized to fix, before issuance, the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

#### Share repurchase

The Company announced a normal course issuer bid effective May 20, 2010. In connection with this normal course issuer bid, the Company is entitled to repurchase for cancellation up to 2,947,552 of its 58,956,050 common shares issued and outstanding, representing 5% of the Company's common shares issued and outstanding as at that date. The normal course issuer bid will expire in May 2011.

In 2009, the Company accounted for the repurchase of 5,298 common shares for cancellation under a normal course issuer bid, which resulted in a decrease of approximately \$31,000 and \$13,000 of the Company's consolidated capital stock and deficit, respectively.

#### Stock options

Under the Company's executive stock option plan, options may be granted to the Company's executives, directors and key employees for the purchase of up to a total of 10% of the Company's issued and outstanding common shares. Options expire no later than 10 years after the date of the grant. The plan provides that such options granted to key employees and executives will vest and may be exercisable 25% per year over four years. The options granted to directors, who are not officers of the Company, will vest and may be exercisable 25% on the grant date, and a further 25% will vest and may be exercisable per year over three years.

All options are granted at a price determined and approved by the Board of Directors, which cannot be less than the average of the closing price of the common shares on the TSX for the day immediately preceding the grant date.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 14 – CAPITAL STOCK (Continued)

The changes in number of options outstanding were as follows:

	2010		2009		2008	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Balance, beginning of year	CAD\$ 6.45	3,318,053	CAD\$ 6.99	3,511,462	USD\$ 6.44	3,976,337
Granted	2.07	825,000	2.83	262,927	3.44	200,000
Exercised	0.55	(10,000)				
Forfeited	6.02	(210,284)	12.25	(11,000)	3.99	(163,250)
Expired	12.14	(567,000)	8.44	(445,336)	10.08	(501,625)
Balance, end of year	4.44	3,355,769	6.45	3,318,053	5.91	3,511,462
Options exercisable at the end of the year	5.67	2,003,974	7.92	2,121,909	7.26	1,997,680

The following table summarizes information about options outstanding and exercisable as at December 31, 2010:

	Options outstanding			Options exercisable	
	Number	Weighted average contractual life (years)	Weighted average exercise price	Number	Weighted average exercise price
Range of exercise prices			CAD\$		CAD\$
\$0.55 to \$0.83	40,000	4.25	0.55	17,500	0.55
\$1.84 to \$2.76	855,000	5.69	2.06	57,500	2.10
\$3.44 to \$5.16	1,751,327	2.91	3.58	1,219,532	3.60
\$7.50 to \$11.25	596,950	0.68	9.30	596,950	9.30
\$11.42	112,492	0.44	11.42	112,492	11.42
	3,355,769	2.59	4.44	2,003,974	5.67

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 14 – CAPITAL STOCK (Continued)

In connection with the Company's delisting from the NYSE, as described in Note 1, all stock options having a US dollar denominated exercise price were converted to the Canadian dollar exercise price available on the TSX as at the time of the grant. This change did not have a significant impact on the Company's accounting for stock options, including the related expense.

The Company uses the fair value based method of accounting for stock-based compensation expense and other stock-based payments. Accordingly, the Company recorded a pre-tax stock-based compensation expense of approximately \$1.0 million in 2010, \$1.0 million in 2009 and \$1.3 million in 2008.

The fair value of options granted was estimated using the Black-Scholes option pricing model, taking into account the following weighted average assumptions:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Expected life	<b>6.0 years</b>	5.9 years	5.5 years
Expected volatility	<b>61%</b>	63%	50%
Risk-free interest rate	<b>2.68%</b>	2.67%	3.13%
Expected dividends	<b>\$0.00</b>	\$0.00	\$0.00

The weighted average fair value per option granted is:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<b>CAD\$</b>	CAD\$	USD\$
	<b>1.23</b>	0.92	1.14

During 2009, 182,927 stock options were granted at exercise prices exceeding the market price of the Company's common shares at the date of the grant. The exercise price and market price of these stock options were \$3.62 and \$2.23, respectively.

### 15 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of other accumulated comprehensive income as at December 31, are as follows:

	<u>2010</u>	<u>2009</u>
	<b>\$</b>	\$
Accumulated currency translation adjustments	<b>54,679</b>	51,165
Cumulative changes in fair value of interest rate swap agreements (net of future income taxes of nil, nil in 2009)	<b>(898)</b>	(1,548)
Cumulative changes in fair value of forward foreign exchange rate contracts (net of future income taxes of nil, nil in 2009)	<b>1,134</b>	791
	<b>54,915</b>	50,408

# **Intertape Polymer Group Inc.**

## **Notes to Consolidated Financial Statements**

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

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### **16 – PENSION AND POST-RETIREMENT BENEFIT PLANS**

The Company has several defined contribution plans and defined benefit plans for substantially all its employees in both Canada and the United States. These plans are generally contributory in Canada and non-contributory in the United States.

#### **Total cash payments**

Total cash payments for employee future benefits for 2010, consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, cash contributed to its defined contribution plans and cash contributed to its multi-employer defined benefit plans, were \$4.7 million (\$3.4 million in 2009 and \$5.8 million in 2008).

#### **Defined contribution plans**

In the United States, the Company maintains a savings retirement plan (401(k) Plan) for the benefit of certain employees who have been employed for at least 90 days. Contribution to this plan is at the discretion of the Company. The Company also maintains 401(k) plans according to the terms of certain collective bargaining agreements.

The Company also contributes to its multi-employer plans for employees covered by certain collective bargaining agreements.

In Canada, the Company maintains defined contribution pension plans for its salaried employees and contributes amounts equal to 4% of each participant's eligible salary.

The Company has expensed \$0.7 million for these plans for the year ended December 31, 2010 (\$0.8 million and \$2.8 million in 2009 and 2008, respectively).

#### **Defined benefit plans**

The Company has, in the United States, three defined benefit pension plans (hourly and salaried). Benefits for employees are based on compensation and years of service for salaried employees and fixed benefits per month for each year of service for hourly employees.

In Canada, certain non-union hourly employees of the Company are covered by a plan which provides a fixed benefit of CAD\$20.00 in 2010, 2009 and 2008 (USD\$19.40 in 2010, USD\$17.52 in 2009 and USD\$18.79 in 2008) per month for each year of service. In addition, the Company maintains a defined benefit plan, which provides for a fixed benefit at a rate ranging from 40.0% to 62.5% in 2010, 2009 and 2008) of the employee contributions, depending on the participation start date.

In the United States, the Company provides group health care and life insurance benefits to certain retirees.

In Canada, the Company provides group health care, dental and life insurance benefits for eligible retired employees.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

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### 16 – PENSION AND POST-RETIREMENT BENEFIT PLANS (Continued)

#### *Supplementary executive retirement plans*

The Company has Supplementary Executive Retirement Plans (“SERPs”) to provide supplemental pension benefits to certain key executives. The SERPs are not funded and provide for an annual pension benefit, from retirement or termination date, in the amounts ranging from \$0.2 million to \$0.6 million, annually. The SERPs had accrued benefit liability as at December 31, 2010 of \$4.9 million (\$4.8 million in 2009).

#### **Non-routine events**

Certain employees located at the Company’s manufacturing facility in Brantford, Ontario, Canada, participate in one of the Company’s defined benefit plan and multi-employer plan. In connection with the Company’s plan to close this facility, as at December 31, 2010, these plans are effectively curtailed. The curtailment will result in a gain. This gain was not recorded given the fact that the event giving rise to this curtailment has not yet occurred.

Effective February 2010, as described in Note 4, the Company terminated the operations of its manufacturing facility located in Hawkesbury, Ontario, Canada. In connection with this closure, and the related defined benefit plan for certain of the facility’s employees, the Company recorded a curtailment gain.

During the year ended December 31, 2009, and in connection with the closure of the Green Bay, Wisconsin manufacturing facility in 2003, the Company finalized the termination benefits to be paid to certain employees of this facility. Accordingly, the Company recorded an additional benefit cost, with respect to the related defined pension plan, amounting to approximately \$0.6 million. The total agreed upon benefit, in the amount of \$1.9 million, will be paid over a period of 15.5 years, and bears interest at a rate of 6.74%.

#### **Investment policy**

The Company’s Investment Committee comprised of the Company’s Chief Financial Officer and Vice President, Human Resources, makes investment decisions for the company’s pension plans. The committee established a target mix of equities and bonds of 70% equities and 30% bonds over time. In Canada, the funds of the non-union plans are split evenly between two balanced mutual funds, thus, over time, achieving the target mix of 70% equities and 30% bonds. The funds of the union plans have a target equity weighing ranging from 45% to 65%.

The rate of return decision is a function of advice from the Company’s actuaries and their review of current holdings, general market trends and common levels used by other employers.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 16 – PENSION AND POST-RETIREMENT BENEFIT PLANS (Continued)

#### Measurement Date and Date of Actuarial Valuations

The Company measures its plan assets and accrued benefit obligations for accounting purposes as at December 31 of each year.

The most recent actuarial valuations for funding purposes were January 1, 2010 and October 1, 2010 for the US plans and September 1, 2008 for the Canadian plans.

The next valuation dates for actuarial valuations to be used for funding purposes are January 1, 2011 and October 1, 2011 for the US plans and September 1, 2011 for the Canadian plan.

Information relating to the various plans is as follows:

	Pension Plans		Other plans	
	2010	2009	2010	2009
	\$	\$	\$	\$
Accrued benefit obligations				
Balance, beginning of year	60,575	52,891	3,637	2,605
Current service cost	831	790	34	54
Plan participants' contributions		3		
Plan amendments	935			
Interest cost	3,570	3,323	221	194
Benefits paid	(2,631)	(2,210)	(212)	(84)
Actuarial losses	4,648	4,142	625	587
Decrease in liability due to curtailment			(134)	
Foreign exchange rate adjustment	748	1,636	145	281
Balance, end of year	68,676	60,575	4,316	3,637
Plans assets				
Balance, beginning of year	43,247	34,580		
Actual return on plans assets	4,825	6,200		
Employer contributions	3,808	2,519		
Plan participants' contributions		3		
Benefits paid	(2,631)	(2,210)		
Foreign exchange rate adjustment	932	2,155		
Balance, end of year	50,181	43,247		
Funded status – deficit	18,495	17,328	4,316	3,637
Unamortized past service costs	(2,640)	(1,995)	(31)	(35)
Unamortized net actuarial gains (losses)	(21,524)	(19,950)	(315)	328
Unamortized transition assets (obligation)	88	90	(7)	(11)
Accrued benefit liability (accrued pension benefit asset)	(5,581)	(4,527)	3,963	3,919

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 16 – PENSION AND POST-RETIREMENT BENEFIT PLANS (Continued)

Included in the above accrued benefit obligation and fair value of plan assets as at December 31, are the following amounts in respect of plans that are not fully funded:

	<b>Pension plans</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Accrued benefit obligation	<b>58,153</b>	46,390
Fair value of plan assets	<b>38,257</b>	26,472
Funded status – plan deficit	<b>19,896</b>	19,918

Weighted average plan assets allocations as at December 31, are as follows:

	<b>Pension Plans</b>	
	<b>2010</b>	<b>2009</b>
Asset category	%	%
Equity securities	<b>76</b>	68
Debt securities	<b>19</b>	28
Other	<b>5</b>	4
Total	<b>100</b>	100

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 16 – PENSION AND POST-RETIREMENT BENEFIT PLANS (Continued)

The accrued benefit liability (accrued pension benefit asset) is included in the Company's consolidated balance sheets as follows:

	Pension plans		Other plans		Total plans	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
Other assets (Note 10)	(12,285)	(10,808)	(61)		(12,346)	(10,808)
Pension and post-retirement benefits	6,704	6,281	4,024	3,919	10,728	10,200
	<b>(5,581)</b>	<b>(4,527)</b>	<b>3,963</b>	<b>3,919</b>	<b>(1,618)</b>	<b>(608)</b>

### Net Benefit Cost

	Pension plans			Other plans		
	2010	2009	2008	2010	2009	2008
	\$	\$	\$	\$	\$	\$
Current service cost	831	790	1,057	34	54	75
Interest cost	3,570	3,323	3,163	221	194	189
Actual return on plans assets	(4,825)	(6,200)	10,266			
Plan amendments	935		649			33
Actuarial (gains) losses	4,648	4,142	(711)	625	587	(654)
Curtailment gain				(134)		
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	<b>5,159</b>	2,055	14,424	<b>746</b>	835	(357)
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between expected return and actual return on plan assets for the year	1,309	3,339	(13,929)			
Difference between actuarial loss recognized for the year and actual actuarial loss (gain) on accrued benefit obligations for the year	(2,763)	(2,482)	1,029	(652)	(647)	626
Difference between amortization of past service costs for the year and actual plan amendments for the year	(619)	809	(350)	4	4	(33)
Amortization of transition obligations (assets)	(6)	(5)	(6)	4	4	4
	<b>(2,079)</b>	1,661	(13,256)	<b>(644)</b>	(639)	597
Net benefit cost for the year	<b>3,080</b>	3,716	1,168	<b>102</b>	196	240

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 16 – PENSION AND POST-RETIREMENT BENEFIT PLANS (Continued)

The average remaining service period of the active employees covered by the pension plans ranges from 7.4 to 24 years for 2010 and from 9.4 to 24.0 years for 2009.

The significant assumptions, which management considers the most likely, and which were used to measure its accrued benefit obligations and net periodic benefit costs are as follows:

Weighted-average assumptions used to determine benefit obligations as at December 31 :

	Pension plans		Other plans	
	2010	2009	2010	2009
Discount rate				
US plans	<b>5.34%</b>	5.72%	<b>4.68%</b>	5.29%
Canadian plans	<b>5.40%</b>	6.50%	<b>5.40%</b>	6.50%
Compensation increase	<b>3.25%</b>	3.25%		

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 16 – PENSION AND POST-RETIREMENT BENEFIT PLANS (Continued)

Weighted-average assumptions used to determine net benefit cost for the years ended December 31:

	Pension plans			Other plans		
	2010	2009	2008	2010	2009	2008
Discount rate						
US plans	<b>5.72%</b>	6.20%	6.40%	<b>5.29%</b>	6.33%	5.75%
Canadian plans	<b>6.50%</b>	7.50%	5.90%	<b>6.50%</b>	7.50%	5.90%
Compensation increase	<b>3.25%</b>	3.25%	3.25%			
Expected long term return on plan assets						
US plans	<b>8.50%</b>	8.50%	8.50%			
Canadian plans	<b>7.25%</b>	7.25%	7.00%			

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 16 – PENSION AND POST-RETIREMENT BENEFIT PLANS (Continued)

For measurement purposes, a 7.0% annual rate increase in the per capita cost of covered health care benefits for the US plans was assumed for 2010 (7.0% in 2009 and 9.0% in 2008). The assumed rate is expected to decrease to 3.9% by 2100. For the Canadian plans, the annual trend rate is 10% for the next 5 years and 5% thereafter. An increase or decrease of 1% of these rates would have the following impacts:

	Increase of 1%	Decrease of 1%
	\$	\$
Impact on net periodic cost	29	(23)
Impact on accrued benefit liability	422	(336)

The Company expects to contribute \$4.2 million to its defined benefit pension plans and \$0.1 million to its health and welfare plans in 2011.

### 17 – SEGMENT DISCLOSURES

During the third quarter of 2010, the Company realigned its organizational, operational and related internal reporting structures combining its Tapes and Films and Engineered Coated Products operations, previously considered as two separate operating segments, into one segment. The operating results of this segment are regularly reviewed by the Company's chief operating decision maker, the Chief Executive Officer.

The change to a single operating segment resulted from various factors, including changes in the Company's management structure, the implementation of a strategic initiative plan and the objective to be able to make more informed decisions with respect to the Company as a whole.

The Company operates in various geographic locations and develops, manufactures and sells a variety of products to a diverse customer base. Most of the Company's products are made from similar processes. A vast majority of the Company's products, while brought to market through various distribution channels, generally have similar economic characteristics. As a result of the Company's structural, operational, management and reporting realignments, decisions about resources to be allocated are determined for the Company as a whole. The chief operating decision maker assesses the Company's performance as a single operating segment.

The Company has restated its reportable segments information for earlier years, and accordingly, no segment information is presented for the years ended December 31, 2009 and 2008.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 17 – SEGMENT DISCLOSURES (Continued)

#### Geographic Information

The following tables present geographic information about sales attributed to countries based on the location of external customers and about property, plant and equipment by country based on the location of the assets:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	\$	\$	\$
Sales			
Canada	<b>73,293</b>	74,822	98,447
United States	<b>572,673</b>	494,159	581,277
Other	<b>74,550</b>	46,481	57,431
Total sales	<b><u>720,516</u></b>	<u>615,462</u>	<u>737,155</u>
Property, plant and equipment, net			
Canada	<b>43,092</b>	52,172	48,600
United States	<b>185,254</b>	206,658	224,406
Other	<b>13,099</b>	15,640	16,757
Total property, plant and equipment, net	<b><u>241,445</u></b>	<u>274,470</u>	<u>289,763</u>

### 18 – RELATED PARTY TRANSACTIONS

In the first quarter of 2010, the Company entered into agreements with companies controlled by two of the current members of its Board of Directors. These agreements replace the previously existing advisory services agreements that expired on December 31, 2009. These agreements require the provision of support services that include the duties of the Executive Director and the Chairman of the Board of Directors. The Executive Director's support services agreement expired on September 30, 2010 and provided for monthly compensation beginning January 2010 in the amount of \$50,000. The Chairman of the Board of Directors support services agreement is effective through the earlier of June 30, 2011 or the termination of the latter's duties as the Chairman of the Board of Directors and provides for monthly compensation beginning January 2010 in the amount of CAD\$25,000. In connection with these agreements, the Company recorded a charge amounting to approximately \$0.8 million (\$1.7 million and \$2.1 million in 2009 and 2008, respectively) in its consolidated earnings for the year ended December 31, 2010 included under the caption selling, general and administrative expenses.

In 2007, the Company entered into three advisory services agreements, two with companies controlled by two current members of the Board of Directors and one with a company controlled by a former senior officer of the Company. The advisory services include business planning and corporate finance activities, and qualify as related party transactions in the normal course of operations, which are measured at the exchange amount. The agreements with the two companies controlled by two current members of the Board of Directors and with the company controlled by the former senior officer were effectively terminated as at December 31, 2009 and 2008, respectively. The agreements provided for monthly compensation beginning January 2008 in the amounts of \$75,000 and CAD\$100,000 per month for a minimum of at least three months. Beginning April 1, 2008, the Company's financial commitment with respect to the services of two of the three companies was \$50,000 and CAD\$100,000 per month and remained in effect through December 31, 2009. Effective November 2008, the two companies controlled by the two current members of the Board of Directors each agreed to a 10% reduction in their monthly compensation.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

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### **18 – RELATED PARTY TRANSACTIONS (Continued)**

Finally, the advisory services agreements provided for an aggregate performance fee payable on July 1, 2010 based on the difference between the average price of the Company's common shares for the ten trading days prior to July 1, 2010 on the TSX (the "Average Price") and the Canadian offering price included in the Company's 2007 rights offering of CAD\$3.61, multiplied by an aggregate of 2.2 million, provided that the Average Price exceeds CAD\$4.76. As at July 1, 2010, the Company's common share price on the TSX was CAD\$2.20.

### **19 – COMMITMENTS AND CONTINGENCIES**

#### **Commitments and Purchase Commitments**

As at December 31, 2010, the Company had commitments aggregating to approximately \$8.1 million through the year 2015 for the rental of offices, warehouse space, manufacturing equipment, automobiles, computer hardware and other assets. Minimum lease payments for the next five years are \$2.6 million in 2011, \$2.4 million in 2012, \$2.1 million in 2013, \$0.8 million in 2014, \$0.2 million in 2015 and thereafter.

#### **Contingent Loss**

In 2009, the Company filed a lawsuit against Inspired Technologies, Inc. ("ITI"). ITI then filed a counterclaim against the Company, with both parties alleging breach of contract in connection with a Supply Agreement and certain confidentiality agreements (collectively the "Claim"). The confidentiality and Supply Agreements (the "Agreements") involved the Company's production and supply of certain products to ITI. The Company filed two summary judgment motions. On July 14, 2010, the Court entered an order granting the Company's summary judgment rendering a decision as a matter of law based upon what the Court considered undisputed facts that all of ITI's claims relating to trademark infringement and false advertising were insufficient. With respect to the Company's request for summary judgment on the issue of breach of the Agreements, the Court on its own motion ruled on September 13, 2010 that the licensing by ITI of its technology to another manufacturer did not violate the Agreements and ordered that the position of the parties be reversed and positioned the Company as the Defendant. On September 29, 2010, a jury in the US District Court for the Middle District of Florida made a determination that the Company had breached certain obligations under the Agreements. Accordingly, the jury rendered a verdict that ITI should be awarded damages in the approximate amount of \$13.2 million.

Following the verdict the Company filed several post-trial motions with the 11th Circuit Court of Appeals, as the Company firmly believed that ITI's allegations were unfounded, that there was no competent evidence to justify and support the damages, and that the damages were unsupportable as a matter of law. Consequently, on December 20, 2010, the US District Court for the Middle District of Florida granted the Company's post trial motion and reduced the amount of the judgement previously awarded from \$13.2 million to \$3.0 million.

On January 5, 2011, ITI filed a notice stating that it had chosen a new trial on damages. On January 6, 2011, the Court set February 9, 2011 as the date for a new trial and a trial was held on the issue of damages. On February 11, 2011 the jury returned a verdict against the Company in the amount of \$0.7 million.

# **Intertape Polymer Group Inc.**

## **Notes to Consolidated Financial Statements**

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

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### **19 – COMMITMENTS AND CONTINGENCIES (Continued)**

The Company's management concluded that although the Claim could result in an adverse consequence to the Company, as at December 31, 2010, the amount of the contingent loss cannot be reasonably estimated. In making its assessment, the Company's management considered, among others, (i) the nature and merits of the Claim, the appeal and the results of the new trial, (ii) the current procedural status of the Claim, and (iii) the Company's past experience in similar situations. Accordingly, no amount has been recorded in connection with this contingent loss as at December 31, 2010. The Company is committed to continue to vigorously defend this Claim.

The Company posted a bond in the amount of \$13.2 million which stayed the execution of the judgement during the appeal process. The bond will earn interest, in favour of the Company, at the State Street Bank SSgA Prime Money Market Fund rate, less 40 basis points. The court retains the discretion to increase or decrease the amount of the required bond based on the results of the post-trial motions. Subsequent to the new trial, the bond was adjusted by the Court. As of March 10, 2011, the amount of the bond was reduced to \$1.0 million, which includes \$0.7 million of damages and \$0.3 million of anticipated legal fees and pre-judgment interest.

As at December 31, 2010 the bond remained at \$13.2 million. The bond's funds will remain restricted to either party until the ultimate resolution of the appeal and the related Claim. As at December 31, 2010 the Company has reported the bond on its consolidated balance sheet as restricted cash in the amount \$5.2 million. The additional \$8.0 million were posted by the Company in the form of a letter of credit as described in Note 12.

The Company is party to other claims and lawsuits in the normal course of business, which are being contested. In the opinion of management, the outcome of such claims and lawsuits will not have a material effect on the Company's financial results and position, and accordingly, no amounts have been recorded as at December 31, 2010.

### **20 – FINANCIAL INSTRUMENTS**

#### **Financial Risk Management Objectives and Policies**

The Company is exposed to various financial risks including: foreign exchange risk, interest rate risk, credit risk, liquidity risk and price risk resulting from its operations and business activities. The Company's management is responsible for setting acceptable levels of risks and reviewing management activities as necessary.

The Company does not enter into financial instrument agreements, including derivative financial instruments, for speculative purposes.



# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 20 – FINANCIAL INSTRUMENTS (Continued)

The Company's interest rate swap agreements and forward foreign exchange rate contracts carrying amounts and fair values were a liability and an asset amounting to \$0.9 million and \$1.3 million as at December 31, 2010, respectively (a liability of \$1.5 million and an asset of \$1.4 million as at December 31, 2009).

The following methods and assumptions were used to determine the estimated fair value of each class of financial instruments:

- The fair value of trade receivables, other receivables, excluding income, sales and other taxes, and accounts payable and accrued liabilities is comparable to their carrying amount, given their short maturity periods;
- The fair value of the Senior Subordinated Notes has been determined based on available quoted market prices;
- The fair value of other long-term debt, mainly bearing interest at variable rates, including primarily the Company's ABL, is closely approximated by their carrying amounts.
- The fair value of the interest rate swap agreements and the forward foreign exchange rate contracts are estimated using a valuation technique that maximizes the use of observable market inputs, including exchange rates and interest rates as a listed market price is not available.

The Company ensures, to the extent possible, that its valuation techniques and assumptions incorporate all factors that market participants would consider in setting a price and that it is consistent with accepted economic methods for pricing financial instruments.

Income and expenses relating to financial assets and liabilities are as follows:

	<b>Interest income</b>		
	<b>2010</b>	2009	2008
	\$	\$	\$
Cash and cash equivalents	<b>54</b>	57	209

  

	<b>Bad debt expense (recovery)</b>		
	<b>2010</b>	2009	2008
	\$	\$	\$
Trade receivables	<b>318</b>	1,133	(118)

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 20 – FINANCIAL INSTRUMENTS (Continued)

	Interest expense calculated using the effective interest rate method		
	2010	2009	2008
	\$	\$	\$
Long-term debt	15,619	16,547	19,013

	Other interest expense		
	2010	2009	2008
	\$	\$	\$
Long-term debt	230	86	385

As at December 31, 2010 and 2009, the financial instruments presented at fair value on the Company's consolidated balance sheet by level of the fair value hierarchy are as follows:

	Level 1	Level 2	2010 Total
		\$	\$
<b>Financial assets</b>			
Cash and cash equivalents	3,968		3,968
Restricted cash	5,183		5,183
Forward foreign exchange rate contracts		1,270	1,270
Total	9,151	1,270	10,421
<b>Financial liabilities</b>			
Interest rate swap agreements		898	898
	Level 1	Level 2	2009 Total
	\$	\$	\$
<b>Financial assets</b>			
Cash and cash equivalents	3,671		3,671
Forward foreign exchange rate contracts		1,438	1,438
Total	3,671	1,438	5,109
<b>Financial liabilities</b>			
Interest rate swap agreements		1,548	1,548

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 20 – FINANCIAL INSTRUMENTS (Continued)

#### Exchange Risk

The Company is exposed to exchange risk due to cash and cash equivalents, trade receivables, accounts payable and accrued liabilities, and long-term debt dominated in a currency other than the functional currency of the operating unit incurring the cost or earning the revenues, primarily the Canadian dollar and the Euro. As at December 31, 2010 and 2009 financial assets and liabilities in foreign currency, translated into US dollars at the closing rate, are as follows:

	2010		2009	
	Canadian dollar USD\$	Euro USD\$	Canadian dollar USD\$	Euro USD\$
Cash and cash equivalents	810	2,119	661	3,641
Trade receivables	9,677	4,697	11,611	5,042
Accounts payable and accrued liabilities	12,553	1,700	10,825	936
Long-term debt		6,070	43	7,661

The following table details the Company's sensitivity to a 10% strengthening of the Canadian dollar and the Euro, against the US dollar, and the related impact on other comprehensive income (loss). For a 10% weakening of the Canadian dollar and the Euro, against the US dollar, there would be an equal and opposite impact on other comprehensive income (loss). As at December 31, 2010 and 2009 everything else being equal, a 10% strengthening of the Canadian dollar and Euro, against the US dollar, would result as follows:

	2010		2009	
	Canadian dollar USD\$	Euro USD\$	Canadian dollar USD\$	Euro USD\$
Increase in other comprehensive income (loss)	9,512	1,694	10,403	1,491

Similar fluctuations in the Canadian dollar and the Euro, against the US dollar, would not materially impact the Company's consolidated earnings for the year. Accordingly, a sensitivity analysis has not been provided.

In 2010, in accordance with the Company's foreign exchange rate risk policy, the Company executed a series of 8 monthly forward foreign exchange rate contracts to purchase an aggregate CAD\$10.0 million beginning in January 2011, at fixed exchange rates ranging from CAD\$1.0260 to CAD\$1.0318 to the US dollar; a series of 6 monthly forward foreign exchange rate contracts to purchase an aggregate CAD\$13.5 million beginning in August 2011, at fixed exchange rates ranging from CAD\$1.0173 to CAD\$1.0223 to the US dollar; and a series of 13 monthly forward foreign exchange rate contracts to purchase an aggregate CAD\$20.0 million beginning in June 2010, at fixed exchange rates ranging from CAD\$1.0610 to CAD\$1.0636 to the US dollar. These forward foreign exchange rate contracts will mitigate foreign exchange rate risk associated with a portion of anticipated monthly inventory purchases of the Company's US self-sustaining foreign operations that are to be settled in Canadian dollars. The Company designated these forward foreign exchange rate contracts as cash flow hedges, effectively mitigating the cash flow risk associated with the settlement of the inventory purchases.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 20 – FINANCIAL INSTRUMENTS (Continued)

Finally, in 2010, the Company executed a series of 12 monthly forward foreign exchange rate contracts to purchase an aggregate USD\$2.0 million beginning in July 2010, at fixed exchange rates ranging from USD\$1.1870 to USD\$1.1923 to the Euro. These forward foreign exchange rate contracts comply with management's foreign exchange risk policy whereby these forward foreign exchange rate contracts will mitigate the foreign exchange rate risk associated with the Company's translation of foreign generated Euro denominated net earnings. However, these forward foreign exchange rate contracts do not comply with the requirements for hedge accounting and thus have not been designated as such.

In 2009, the Company executed a series of 12 monthly forward foreign exchange rate contracts to purchase an aggregate CAD\$20.0 million beginning in February 2010, at fixed exchange rates ranging from CAD\$1.0934 to CAD\$1.0952 to the US dollar. The Company designated these forward foreign exchange rate contracts as cash flow hedges.

In 2008, the Company executed a series of 36 monthly forward foreign exchange rate contracts to purchase an aggregate CAD\$40.0 million beginning in February 2009, at fixed exchange rates ranging from CAD\$1.1826 to CAD\$1.2808 to the US dollar. The Company designated these forward foreign exchange rate contracts as cash flow hedges.

The details and conditions of the forward foreign exchange rate contracts and related anticipated inventory purchases are as follows as at December 31, 2010, 2009 and 2008:

Contract Series	Notional amount CAD\$	Purchases' amount CAD\$	Settlement USD\$	Purchases' period (month, 2011)	Foreign exchange rate (CAD\$ to USD\$)
					\$
1	1,000,000	1,000,000	974,659	January	1.0260
2	1,000,000	1,000,000	973,994	February	1.0267
3	1,250,000	1,250,000	1,216,545	March	1.0275
4	1,250,000	1,250,000	1,215,480	April	1.0284
5	1,250,000	1,250,000	1,214,536	May	1.0292
6	1,250,000	1,250,000	1,213,474	June	1.0301
7	1,500,000	1,500,000	1,455,039	July	1.0309
8	1,500,000	1,500,000	1,453,770	August	1.0318

  

Contract Series	Notional amount CAD\$	Purchases' amount CAD\$	Settlement USD\$	Purchases' period (month, 2011)	Foreign exchange rate (CAD\$ to USD\$)
					\$
1	1,250,000	1,250,000	1,228,743	July	1.0173
2	1,250,000	1,250,000	1,227,536	August	1.0183
3	2,750,000	2,750,000	2,697,930	September	1.0193
4	2,750,000	2,750,000	2,695,550	October	1.0202
5	2,750,000	2,750,000	2,692,910	November	1.0212
6	2,750,000	2,750,000	2,690,012	December	1.0223

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 20 – FINANCIAL INSTRUMENTS (Continued)

<u>Contract Series</u>	<u>Notional amount</u> CAD\$	<u>Purchases' amount</u> CAD\$	<u>Settlement</u> USD\$	<u>Purchases' period</u> <u>(month, 2010)</u>	<u>Foreign exchange rate (CAD\$ to USD\$)</u> \$
1	1,538,462	1,538,462	1,450,011	June	1.0610
2	1,538,462	1,538,462	1,449,874	July	1.0611
3	1,538,462	1,538,462	1,449,738	August	1.0612
4	1,538,462	1,538,462	1,449,601	September	1.0613
5	1,538,462	1,538,462	1,449,601	October	1.0613
6	1,538,462	1,538,462	1,449,601	November	1.0613
7	1,538,462	1,538,462	1,449,328	December	1.0615

  

<u>Contract Series</u>	<u>Notional amount</u> CAD\$	<u>Purchases' amount</u> CAD\$	<u>Settlement</u> USD\$	<u>Purchases' period</u> <u>(month, 2011)</u>	<u>Foreign exchange rate (CAD\$ to USD\$)</u> \$
8	1,538,462	1,538,462	1,448,055	January	1.0617
9	1,538,462	1,538,462	1,448,918	February	1.0618
10	1,538,462	1,538,462	1,447,373	March	1.0622
11	1,538,462	1,538,462	1,447,828	April	1.0626
12	1,538,462	1,538,462	1,446,283	May	1.0630
13	1,538,462	1,538,462	1,446,466	June	1.0636

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 20 – FINANCIAL INSTRUMENTS (Continued)

<u>Contract Series</u>	<u>Notional amount</u> EUR€	<u>Purchases' amount</u> EUR€	<u>Settlement</u> USD\$	<u>Purchases' period</u> (month, 2010)	<u>Foreign exchange rate (EUR€ to USD\$)</u> \$
1	140,410	140,410	166,667	July	1.1870
2	140,315	140,315	166,667	August	1.1878
3	140,209	140,209	166,667	September	1.1887
4	140,186	140,186	166,667	October	1.1889
5	140,162	140,162	166,667	November	1.1891
6	140,115	140,115	166,667	December	1.1895

<u>Contract Series</u>	<u>Notional amount</u> EUR€	<u>Purchases' amount</u> EUR€	<u>Settlement</u> USD\$	<u>Purchases' period</u> (month, 2011)	<u>Foreign exchange rate (EUR€ to USD\$)</u> \$
7	140,068	140,068	166,667	January	1.1899
8	140,021	140,021	166,667	February	1.1903
9	139,962	139,962	166,667	March	1.1908
10	139,915	139,915	166,667	April	1.1912
11	139,856	139,856	166,667	May	1.1917
12	139,786	139,786	166,667	June	1.1923

<u>Contract Series</u>	<u>Notional amount</u> CAD\$	<u>Purchases' amount</u> CAD\$	<u>Settlement</u> USD\$	<u>Purchases' period</u> (month, 2010)	<u>Foreign exchange rate (CAD\$ to USD\$)</u> \$
1	1,000,000	999,900	914,487	January	1.0934
2	1,444,500	1,444,300	1,320,805	February	1.0935
3	2,555,500	2,555,300	2,336,595	March	1.0936
4	1,000,000	999,900	914,236	April	1.0937
5	1,444,500	1,444,300	1,320,442	May	1.0938
6	2,555,500	2,555,300	2,335,740	June	1.0940
7	1,000,000	999,900	913,818	July	1.0942
8	1,444,500	1,444,300	1,319,839	August	1.0943
9	2,555,500	2,555,300	2,334,673	September	1.0945
10	1,000,000	999,900	913,317	October	1.0948
11	1,444,500	1,444,300	1,318,995	November	1.0950
12	2,555,500	2,555,300	2,333,181	December	1.0952

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 20 – FINANCIAL INSTRUMENTS (Continued)

Contract Series	Notional amount	Purchases' amount	Settlement	Purchases' period	Foreign exchange rate (CAD\$ to USD\$)
	CAD\$	CAD\$	USD\$	(month, 2009)	\$
1	1,000,000	999,900	843,157		1.1859
	500,000	499,950	390,342		1.2808
	500,000	499,950	403,772	January	1.2382
2	1,444,500	1,444,300	1,218,305		1.1855
	722,250	722,150	563,915		1.2806
	722,250	722,150	583,650	February	1.2373
3	2,555,500	2,555,300	2,156,371		1.1850
	1,277,750	1,277,650	997,930		1.2803
	1,277,750	1,277,650	1,033,446	March	1.2363
4	1,000,000	999,900	844,154		1.1845
	500,000	499,950	390,586		1.2800
	500,000	499,950	404,818	April	1.2350
5	1,444,500	1,444,300	1,219,642		1.1842
	722,250	722,150	564,356		1.2796
	722,250	722,150	585,306	May	1.2338
6	2,555,500	2,555,300	2,158,193		1.1840
	1,277,750	1,277,650	998,710		1.2793
	1,277,750	1,277,650	1,036,633	June	1.2325
7	1,000,000	999,900	844,724		1.1837
	500,000	499,950	390,922		1.2789
	500,000	499,950	406,067	July	1.2312
8	1,444,500	1,444,300	1,220,363		1.1835
	722,250	722,150	564,797		1.2786
	722,250	722,150	587,066	August	1.2301
9	2,555,500	2,555,300	2,159,469		1.1833
	1,277,750	1,277,650	999,492		1.2783
	1,277,750	1,277,650	1,039,416	September	1.2292
10	1,000,000	999,900	845,153		1.1831
	500,000	499,950	391,197		1.2780
	500,000	499,950	406,993	October	1.2284
11	1,444,500	1,444,300	1,220,982		1.1829
	722,250	722,150	565,151		1.2778
	722,250	722,150	588,262	November	1.2276
12	2,555,500	2,555,300	2,160,748		1.1826
	1,277,750	1,277,650	1,000,039		1.2776
	1,277,750	1,277,650	1,041,280	December	1.2270

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

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### 20 – FINANCIAL INSTRUMENTS (Continued)

#### Execution and Settlement

During the year ended December 31, 2010, one of the Company's US self-sustaining foreign operations (the "Subsidiary") purchased an aggregate of CAD\$82.8 million (USD\$80.6 million) (CAD\$64.8 million (USD\$57.9 million) in 2009) of inventories. Included in this amount is approximately CAD\$30.8 million (USD\$29.9 million) (CAD\$40.0 million (USD\$35.3 million) in 2009) of inventory purchases previously designated as part of a hedging relationship using forward foreign exchange rate contracts (the "Contracts"). These Contracts, used to reduce the exposure related to the Subsidiary's "anticipated" inventory purchases during the period of January through December 2010. All inventories purchased and subject to the hedging relationship pursuant to these Contracts were sold as at December 31, 2010.

For the year ended December 31, 2010, the cumulative change in these settled Contracts' fair value was recognized in the consolidated earnings under the caption "cost of sales" in the amount of \$1.5 million, (\$2.6 million in 2009). The cumulative change in the Contracts' fair value was recognized in consolidated earnings as a result of the following:

- (a) The Contracts have been settled; and
- (b) The hedging item (the Contracts) is recognized in consolidated earnings at the same period the hedged item (the inventories) is recognized in consolidated earnings.

#### Discontinuance of Hedging Relationships

During the year ended December 31, 2010, the Company's management decided to discontinue hedge accounting for specific hedging relationships by terminating the designation of these relationships. The discontinued hedging relationships consisted of four forward foreign exchange rate contracts (six forward foreign exchange rate contracts in 2009) (collectively the "Terminated Contracts"). These Terminated Contracts represent the Company's hedged inventory purchases and related accounts payable during the months of June 2010 (June 2009) and September 2010 (December 2009). All inventory purchases covered under these contracts were sold and consequently were included in the determination of net earnings for the years ended December 31, 2010 and 2009. Accordingly, included in the Company's consolidated earnings for the year ended December 31, 2010 are \$0.4 million (\$1.1 million in 2009) under the caption cost of sales, representing the gain on these Terminated Contracts, which had been previously recognized in accumulated other comprehensive income as a result of applying hedge accounting and a loss of nil (\$0.1 million in 2009) under the caption financial expenses – other, representing the change in fair value of these Terminated Contracts arising subsequent to the Company's management decision to terminate the designation of these specific hedging relationships.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 20 – FINANCIAL INSTRUMENTS (Continued)

#### Interest Rate Risk

The Company is exposed to interest rate risk through its long-term debt. The Company's policy, to the extent possible, is to maintain most of its borrowings at fixed interest rates using interest rate swap agreements, when necessary.

The Company's fixed rate senior subordinated notes, and mortgage loans are exposed to a risk of change in fair value due to changes in the underlying interest rates. The Company does not currently hold any derivative financial instruments to mitigate this risk.

The Company is exposed to a risk of change in cash flows due to the fluctuations in interest rates applicable on its variable rate ABL. To mitigate this risk, the Company entered into two interest rate swap agreements (the "Agreements"), designated as cash flow hedges. The terms of these Agreements are as follows:

	Notional amount	Settlement	Fixed interest rate paid
	\$		%
Agreement maturing in September 2011	40,000,000	Monthly	3.35
Agreement matured in October 2009	30,000,000	Monthly	2.89

As at December 31, 2010, the effective interest rate on the remaining \$40.0 million (\$40.0 million in 2009) hedged portion was 5.35% (5.35% in 2009) and the effective interest rate on the excess was 2.38% (2.25% in 2009).

The Company analyzes its interest rate exposure on an on-going basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the impact on its consolidated earnings of a defined interest rate shift.

As at December 31, 2010, the impact on the Company's consolidated earnings of a 1.0% shift in interest rates, assuming all other variables remained equal, would be an increase (decrease) of approximately \$0.5 million (an increase (decrease) of \$0.5 million in 2009). The Company's interest rate swap agreements have been included in this calculation. Other comprehensive income (loss) would not materially change as a result of a similar shift in interest rates and consequently, no sensitivity analysis is provided.

#### Credit Risk

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. Generally, the carrying amount reported on the Company's consolidated balance sheet for its financial assets exposed to credit risk, net of any applicable provisions for losses, represents the maximum amount exposed to credit risk.

Financial assets that potentially subject the Company to credit risk consist primarily of cash and cash equivalents, trade receivables, other receivables, namely supplier rebates receivable, and derivative financial instruments.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 20 – FINANCIAL INSTRUMENTS (Continued)

#### *Cash and cash equivalents*

Credit risk associated with cash and cash equivalents is substantially mitigated by ensuring that these financial assets are placed with major financial institutions that have been accorded investment grade ratings by a primary rating agency and qualify as credit worthy counterparties. Furthermore, for cash account balances in excess of \$250,000, the Company only deposited such funds with American financial institutions that participated in the Federal Deposit Insurance Corporation (“FDIC”) under the program entitled the “Transaction Account Guarantee Program”. This program ended on December 31, 2009. The Company performs an ongoing review and evaluation of the possible changes in the status and credit worthiness of its counterparties.

#### *Derivative Financial Instruments*

Credit risk related to derivative financial instruments is adequately controlled, as the Company enters into such agreements solely with large American financial institutions having suitable credit ratings and who demonstrate sufficient liquidity. The credit risk, which the Company is exposed to in respect of derivative financial instruments, is limited to the replacement costs of contracts at market prices and when these agreements result in a receivable from the financial institution in the event of a counterparty default.

#### *Trade Receivables*

Credit risk with respect to trade receivables is limited due to the Company's credit evaluation process, reasonably short collection terms and the credit worthiness of its customers. The Company regularly monitors its credit risk exposures and takes steps to mitigate the likelihood of these exposures from resulting in actual losses. Allowance for doubtful accounts is maintained, consistent with credit risk, historical trends, general economic conditions and other information and is taken into account in the consolidated financial statements.

The following table presents an analysis of the age of trade receivables and related balance as at December 31:

	<u>2010</u>	<u>2009</u>
	\$	\$
Current	<b>84,563</b>	73,653
30 – 60 days past due	<b>1,058</b>	341
61 – 90 days past due	<b>209</b>	223
Over 91 days past due	<b>2,339</b>	1,141
	<b>88,169</b>	75,358
Allowance for doubtful accounts	<b>(1,653)</b>	(1,197)
Balance	<b>86,516</b>	74,161

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 20 – FINANCIAL INSTRUMENTS (Continued)

The Company makes estimates and assumptions in the process of determining an adequate allowance for doubtful accounts. Trade receivables outstanding longer than the agreed upon payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade receivables are past due, the customer's current ability to pay its obligation to the Company, historical results and the condition of the general economy and the industry as a whole. The Company writes-off trade receivables when they are determined to be uncollectible and any payments subsequently received on such trade receivables are credited to the allowance for doubtful accounts. The allowance for doubtful accounts is primarily calculated on a specific-identification of trade receivable accounts.

The following table presents a continuity summary of the Company's allowance for doubtful accounts as at and for the year ended December 31:

	<u>2010</u>	<u>2009</u>
	\$	\$
Balance, beginning of year	1,197	435
Additions	456	769
Write-offs		(7)
Balance, end of year	<u>1,653</u>	<u>1,197</u>

#### *Other Receivables*

Credit risk associated with other receivables primarily relates to supplier rebates receivable. This risk is limited considering the Company's diversified counterparties and geography.

As at December 31, 2010 and 2009, no single vendor accounted for over 5% of the Company's total current assets. The Company does not believe it is subject to any significant concentration of credit risk.

#### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial liabilities and obligations as they become due. The Company is exposed to this risk mainly through its long-term debt, accounts payable and accrued liabilities, and derivative financial instruments (liabilities). The Company finances its operations through a combination of cash flows from operations and borrowings under its ABL.

Liquidity risk management serves to maintain a sufficient amount of cash and cash equivalents and to ensure that the Company has financing sources for a sufficient authorized amount. The Company establishes budgets, cash estimates and cash management policies to ensure it has the necessary funds to fulfil its obligations for the foreseeable future.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 20 – FINANCIAL INSTRUMENTS (Continued)

The following maturity analysis for derivatives and non-derivative financial liabilities is based on the remaining contractual maturities as at the balance sheet date. The amounts disclosed reflect the contractual undiscounted cash flows categorized by their earliest contractual maturity date on which the Company can be required to pay its obligation.

The maturity analysis for non-derivative financial liabilities is as follows as at December 31:

				2010
	Other long-term loans	Obligations under capital leases	Accounts payable and accrued liabilities	Total
	\$	\$	\$	\$
Current maturity	2,353	754	85,145	88,252
2012	2,410	647		3,057
2013	91,678	609		92,287
2014	119,337	592		119,929
2015	256	572		828
2016 and thereafter	1,422	4,910		6,332
	<u>217,456</u>	<u>8,084</u>	<u>85,145</u>	<u>310,685</u>

  

				2009
	Other long-term loans	Obligations under capital leases	Accounts payable and accrued liabilities	Total
	\$	\$	\$	\$
Current maturity	1,193	825	68,228	70,246
2011	1,997	722		2,719
2012	2,001	612		2,613
2013	87,390	574		87,964
2014	119,382	565		119,947
2015 and thereafter	1,643	5,465		7,108
	<u>213,606</u>	<u>8,763</u>	<u>68,228</u>	<u>290,597</u>

The maturity analysis for derivatives financial liabilities includes only the maturities essential for an understanding of the timing of the cash flows. In connection with the Company's derivative financial liabilities requiring settlement on a net basis, undiscounted net cash flows are presented.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 20 – FINANCIAL INSTRUMENTS (Continued)

The maturity analysis for derivative financial liabilities is as follows as at December 31:

				2010
	Less than 6 months	6 months to 1 year	Greater than 1 year	Total
	\$	\$	\$	\$
Interest rate swap agreements	582	316		898

  

				2009
	Less than 6 months	6 months to 1 year	Greater than 1 year	Total
	\$	\$	\$	\$
Interest rate swap agreements	616	499	433	1,548

As at December 31, 2010, the Company's unused availability under the ABL and available cash and cash equivalents on hand amounted to \$43.0 million (\$45.1 million in 2009).

### Price Risk

The Company's price risk arises from changes in its oil-derived raw material prices, which are significantly influenced by the fluctuating underlying crude oil markets. The Company's objectives in managing its price risk are threefold: i) to protect its financial result for the period from significant fluctuations in raw material costs, ii) to anticipate, to the extent possible, and plan for significant changes in the raw material markets and iii) to ensure sufficient availability of raw material required to meet the Company's manufacturing requirements. In order to manage its exposure to price risks, the Company closely monitors current and anticipated changes in market prices and develops pre-buying strategies and patterns, and seeks to adjust its selling prices when market conditions permit. Historical results indicate management's ability to rapidly identify fluctuations in raw material prices and, to the extent possible, incorporate such fluctuations in the Company's selling prices.

As at December 31, 2010, all other parameters being equal, a hypothetical increase of 10% in the cost of raw materials, with no corresponding sales price adjustments, would result in an increase amounting to approximately \$27.0 million (increase of approximately \$21.0 million in 2009) of the Company's net loss for the year. A similar decrease of 10% will have the opposite impact. No material impact is expected on other comprehensive income (loss) and accordingly, no sensitivity analysis is provided.

### Capital Management

The Company's primary objectives when managing capital are i) to provide adequate return to its shareholders, ii) minimize, to the extent possible, the risks associated with its shareholders' investment in the Company, iii) safeguard the Company's ability to continue as a going concern and iv) provide financial capacity and flexibility to meet strategic objectives and growth.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 20 – FINANCIAL INSTRUMENTS (Continued)

The capital structure of the Company consists of cash and cash equivalents, debt and shareholders' equity. A summary of the Company's capital structure is as follows as at December 31:

	<u>2010</u>	<u>2009</u>
	\$	\$
Cash and cash equivalents	3,968	3,671
Debt	221,014	217,002
Shareholders' equity	186,834	237,803

The Company manages its capital structure in accordance with its expected business growth, operational objectives and underlying industry, market and economic conditions. Consequently, the Company will determine, from time to time, its capital requirements and will accordingly develop a plan to be presented and approved by its Board of Directors. The plan may include the repurchase of common shares, the issuance of shares, the payment of dividends and the issuance of new debt or the refinancing of existing debt.

In meeting its principal objective to provide adequate return to its shareholders, the Company undertakes measures to maintain and grow its adjusted EBITDA over the years. Such measures include the introduction of new products and penetration into new markets and market niches.

The Company monitors its capital by reviewing its credit ratings as determined by independent agencies and evaluating various financial metrics. These metrics, which are provided to and used by the Company's key management personnel in their decision making process, consisted of the following for the trailing twelve months ended December 31:

	<u>2010</u>	<u>2009</u>
	\$	\$
Adjusted EBITDA	40,697	43,098
Interest expense	14,507	15,442
Debt	221,014	217,002
<b>Internal financial ratios</b>		
Debt to adjusted EBITDA	5.43	5.04
Adjusted EBITDA to interest expense	2.81	2.79

Debt represents the Company's long-term and related current portion borrowings. The Company defines Adjusted EBITDA as net earnings (loss) before: i) income taxes (recovery); ii) financial expenses, net of amortization (including foreign exchange gain (loss)); iii) refinancing expense, net of amortization; iv) amortization of debt issue expenses; v) amortization of intangibles assets and deferred charges; vi) depreciation of property, plant and equipment; vii) manufacturing facility closures, restructuring, strategic alternatives and other charges; viii) impairment of goodwill; ix) impairment of long lived-assets and other assets; x) unprecedented gross margin compression; and xi) write-down on classification as asset held-for-sale. Interest expense is defined as the total interest expense incurred net of any interest income earned during the year.

During 2010, the Company's strategy, which was unchanged from 2009, primarily consisted of maintaining a debt to adjusted EBITDA ratio not exceeding 4.0 to 1.0. The Company was not in compliance with this internal target and metric as at December 31, 2010 and 2009 mainly due to gross

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 20 – FINANCIAL INSTRUMENTS (Continued)

margin compression. The Company believes that the monitoring and evaluation of these internal metrics and ratios are consistent with its capital management objectives.

The Company is not subject to any externally imposed capital requirements.

### 21 – DIFFERENCES IN ACCOUNTING BETWEEN THE UNITED STATES OF AMERICA AND CANADA

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”), which differ in certain material respects from those principles that the Company would have followed had its consolidated financial statements been prepared in accordance with US GAAP. The differences relating to measurement and recognition are explained below, along with their effect on the Company’s consolidated earnings and balance sheets. Certain additional disclosures required under US GAAP have not been provided, as permitted by the SEC.

#### (a) Net loss and loss per share

The adjustments necessary to comply with US GAAP would be as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	\$	\$	\$
Net loss in accordance with Canadian GAAP	<b>(56,445)</b>	(14,389)	(92,799)
Foreign exchange gain resulting from the reduction in net investment in a foreign subsidiary (Note 22(h))		(79)	(899)
Net loss in accordance with US GAAP	<u><b>(56,455)</b></u>	<u>(14,468)</u>	<u>(93,698)</u>
Loss per share in accordance with US GAAP			
Basic	<u><b>(0.96)</b></u>	<u>(0.25)</u>	<u>(1.59)</u>
Diluted	<u><b>(0.96)</b></u>	<u>(0.25)</u>	<u>(1.59)</u>

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 21 – DIFFERENCES IN ACCOUNTING BETWEEN THE UNITED STATES OF AMERICA AND CANADA (Continued)

#### (b) Consolidated balance sheets

The adjustments to comply with US GAAP would be as follows:

	2010			2009		
	As per Canadian GAAP	Adjustments	As per US GAAP	As per Canadian GAAP	Adjustments	As per US GAAP
	\$	\$	\$	\$	\$	\$
<b>Assets</b>						
Other assets	23,185	(10,945) (d) 2,531 (e)	14,771	21,869	(8,218) (d) 3,101 (e)	16,752
Future income tax assets	23,143	9,039 (d)	32,182	43,736	7,982 (d)	51,718
<b>Liabilities</b>						
Pension and post-retirement benefits	10,728	13,484 (d)	24,212	10,200	13,355 (d)	23,555
Long-term debt <sup>1</sup>	221,014	2,531 (e)	223,545	217,002	3,101 (e)	220,103
<b>Shareholders' equity</b>						
Deficit	(231,354)		(231,354)	(174,909)	(79) (h)	(174,988)
Accumulated other comprehensive income	54,915	(15,390) (d)	39,525	50,408	(13,591) (d) 79 (h)	36,896

The other differences in presentation that would be required under US GAAP to the consolidated balance sheets, other than as disclosed below, are not viewed as significant enough to require further disclosure.

<sup>1</sup> Includes amount presented under the caption installments on long-term debt on the Company's consolidated balance sheets as at December 31, 2010 and 2009.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 21 – DIFFERENCES IN ACCOUNTING BETWEEN THE UNITED STATES OF AMERICA AND CANADA (Continued)

#### (c) Consolidated cash flows

Canadian GAAP permits the disclosure of a subtotal of the amount of funds provided by operations before changes in non-cash working capital items to be included in the consolidated statements of cash flows. US GAAP does not permit such subtotal to be presented.

#### (d) Employee future benefits

Under US GAAP, an employer is required to recognize the over-funded or under-funded status of defined benefit post-retirement plans as an asset or liability in its balance sheet and to recognize changes in that status in the year in which the change occurs through other comprehensive income (loss). The post-retirement expenses are determined in the same manner as under Canadian GAAP.

The following table presents the effect of applying this statement on individual line items in the consolidated balance sheet as at December 31:

	<u>2010</u>	<u>2009</u>
	\$	\$
Other assets	<b>(10,945)</b>	(8,218)
Future income tax assets	<b>9,039</b>	7,982
Total assets	<b><u>(1,906)</u></b>	<u>(236)</u>
Pension and post-retirement benefits	<b>13,484</b>	13,355
Accumulated other comprehensive income	<b><u>(15,390)</u></b>	<u>(13,591)</u>
Total liabilities and shareholders' equity	<b><u>(1,906)</u></b>	<u>(236)</u>

#### (e) Deferred debt issue expenses

In accordance with Canadian GAAP, the debt issue expenses are classified against the related long-term debt, with the exception of debt issue expenses incurred in connection with a line of credit or a revolving credit agreement, such as the Company's ABL, and are subsequently amortized using the effective interest method. Prior to January 1, 2008, the long-term debt was measured at cost and the related debt issue expenses were included in the Company's consolidated balance sheets under the caption other assets and were amortized on a straight-line basis over the term of the related long-term debt. There was no significant difference in the amortization expense resulting from the application of the straight-line versus the effective interest methods prior to the application of the new standards on January 1, 2008 or subsequent thereto.

Under US GAAP, such costs are recorded separately within other assets on the Company's consolidated balance sheets. Consequently, the debt issue expenses, incurred in connection with the Company's Senior Subordinates Notes, have been reclassified to "other assets" for US GAAP purposes.

# Intertape Polymer Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(in US dollars, tabular amounts in thousands, except as otherwise noted)

### 21 – DIFFERENCES IN ACCOUNTING BETWEEN THE UNITED STATES OF AMERICA AND CANADA (Continued)

(f) Consolidated comprehensive income (loss)

The following table presents consolidated comprehensive income (loss) per US GAAP:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	\$	\$	\$
Comprehensive income (loss) in accordance with Canadian GAAP	<b>(51,938)</b>	3,467	(127,709)
Pension and post-retirement benefits (Note 22 (d))	<b>(1,799)</b>	632	(7,648)
Consolidated comprehensive income (loss)	<b><u>(53,737)</u></b>	<u>4,099</u>	<u>(135,357)</u>

(g) Accounting for Uncertainty in Income Tax Positions

In July 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48 “Accounting for Uncertainty in Income Tax Positions” (“FIN 48”) introducing recognition and measurement criteria for income tax positions. An income tax position is a position taken in a filed tax return or a position that will be taken in a future tax return which has been reflected in the recognition and measurement of income or deferred tax assets or liabilities. Under the provisions of FIN 48, a tax position must be evaluated using a more likely than not recognition threshold based on the technical merits of the position and can only be recognized if it is more likely than not that this position will be sustainable on an audit by the taxation authorities. If the position does not meet this threshold, no amount may be accrued. Additionally, the recognized tax position will be measured at the largest amount that is greater than 50% likely to be realized on settlement. FIN 48 has no impact on the Company’s consolidated financial statements.

(h) Reduction in Net Investment of Foreign Subsidiary

In the course of the year ended December 31, 2009, and in accordance with Canadian GAAP, the Company reclassified, from consolidated accumulated other comprehensive income to its consolidated earnings, a foreign exchange gain amounting to \$0.1 million as a result of the partial repayment of notes (the “Notes”) previously advanced to one of the Company’s self-sustaining foreign operations (the “Subsidiary”). This repayment ultimately reduced the Company’s net investment in this Subsidiary. Initially, these Notes were designated as part of the Company’s net investment in this Subsidiary. Accordingly, related foreign exchange gains and losses were included as a separate component of consolidated accumulated other comprehensive income. In accordance with Canadian GAAP, and as a result of the partial repayment, a proportionate amount of the foreign exchange gains and losses accumulated in the separate component of accumulated other comprehensive income were recognized in the net loss for the year.

Under US GAAP, similar recognition in consolidated earnings is only permitted upon the sale or complete or substantial liquidation of an entity’s investment in a subsidiary. Accordingly, under US GAAP the reclassification from consolidated accumulated other comprehensive income to consolidated earnings is reversed.