



AIRBOSS OF AMERICA CORP.
2018 THIRD QUARTER
INTERIM REPORT

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

The following Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations of AirBoss of America Corp. ("AirBoss" or the "Company") has been prepared as of November 7, 2018 and should be read in conjunction with the Unaudited Interim Condensed Consolidated Financial Statements and Notes for the three and nine month periods ended September 30, 2018 and the MD&A and Audited Consolidated Financial Statements and Notes for the year ended December 31, 2017. The Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The Audit Committee and Board of Directors have reviewed and approved the contents of this MD&A, the Financial Statements and the third quarter press release. All dollar amounts are shown in thousands of US dollars, except per share amounts, unless otherwise specified. Additional information regarding the Company, including its Annual Information Form, can be found on SEDAR at www.sedar.com and on the Company's website at www.airbossofamerica.com.

FORWARD-LOOKING INFORMATION

Certain statements contained or incorporated by reference herein, including those that express management's expectations or estimates of future developments or AirBoss' future performance, constitute "forward-looking information" or "forward-looking statements" within the meaning of applicable securities laws, and can generally be identified by words such as "will", "may", "could", "expects", "believes", "anticipates", "forecasts", "plans", "intends" or similar expressions. These statements are not historical facts but instead represent management's expectations, estimates and projections regarding future events and performance.

Statements containing forward-looking information are necessarily based upon a number of opinions, estimates and assumptions that, while considered reasonable by management at the time the statements are made, are inherently subject to significant business, economic and competitive risks, uncertainties and contingencies. AirBoss cautions that such forward-looking information involves known and unknown contingencies, uncertainties and other risks that may cause AirBoss' actual financial results, performance or achievements to be materially different from its estimated future results, performance or achievements expressed or implied by the forward-looking information. Numerous factors could cause actual results to differ materially from those in the forward-looking information, including without limitation: impact of general economic conditions; dependence on key customers; cyclical trends in the tire and automotive, construction, mining and retail industries; sufficient availability of raw materials at economical costs; weather conditions affecting raw materials, production and sales; AirBoss' ability to maintain existing customers or develop new customers in light of increased competition; AirBoss' ability to successfully integrate acquisitions of other businesses and/or companies or to realize on the anticipated benefits thereof; changes in accounting policies and methods, including uncertainties associated with critical accounting assumptions and estimates; changes in the value of the Canadian dollar relative to the US dollar; changes in tax laws and potential litigation; ability to obtain financing on acceptable terms; environmental damage and non-compliance with environmental laws and regulations; potential product liability and warranty claims and equipment malfunction. This list is not exhaustive of the factors that may affect any of AirBoss' forward-looking information.

All of the forward-looking information in this Interim Report is expressly qualified by these cautionary statements. Investors are cautioned not to put undue reliance on forward-looking information. All subsequent written and oral forward-looking information attributable to AirBoss or persons acting on its behalf are expressly qualified in their entirety by this notice. Forward-looking information contained herein is made as of the date of this Interim Report and, whether as a result of new information, future events or otherwise, AirBoss disclaims any intent or obligation to update publicly the forward-looking information except as required by applicable laws. Risks and uncertainties about AirBoss' business are more fully discussed under the heading "Risk Factors" in our most recent Annual Information Form and are otherwise disclosed in our filings with securities regulatory authorities which are available on SEDAR at www.sedar.com.

Q3 2018 Highlights**(In US dollars)**

- AirBoss Defense, the defense products line of Engineered Products, was awarded four contracts expected to be worth up to an aggregate amount of \$122.0 million to manufacture protective personal equipment for the Canadian, U.S. and Australian defense forces
- Quarterly dividend paid of CAD \$0.07 per common share
- Basic and diluted earnings per share of \$0.06 per common share

Selected Financial Information*In thousands of US dollars, except share data*

	Three months ended September 30 (unaudited)		Nine months ended September 30 (unaudited)	
	2018	2017	2018	2017
Financial results:				
Net sales	77,773	71,837	240,119	215,641
Net income	1,347	2,804	7,205	8,860
Net income per share (US\$)				
– Basic	0.06	0.12	0.31	0.38
– Diluted	0.06	0.12	0.31	0.38
EBITDA ¹	5,350	6,376	19,943	20,807
Net cash provided by operating activities	4,565	1,162	6,101	2,495
Dividends declared per share (CAD \$)	0.07	0.07	0.21	0.21
Capital expenditures	1,043	1,590	3,789	4,975
Financial position:				
	September 30, 2018		December 31, 2017	
Total assets	226,682		225,948	
Term loan and other debt	65,980		69,257	
Shareholders' equity	121,567		117,161	
Outstanding shares (#) *	23,420,698		23,091,113	
	<i>* at November 7, 2018</i>			

Non-IFRS Financial Measures

This MD&A is based on reported income in accordance with International Financial Reporting Standards ("IFRS") and on the following non-IFRS financial measures:

EBITDA Earnings before interest income, interest expense, income taxes and depreciation and amortization

EBITDA is a non-IFRS financial measure directly derived from the consolidated financial statements but does not have a standardized meaning prescribed by IFRS and is not necessarily comparable to a similar measure presented by other issuers. The Company discloses EBITDA, a financial measurement used by interested parties and investors to monitor the ability of an issuer to generate cash from operations for debt service, financing working capital and capital expenditures and paying dividends. EBITDA is not a measure of performance under IFRS and should not be considered in isolation or as a substitute for net income under IFRS.

A reconciliation of net income to EBITDA is presented below:

RESULTS OF OPERATIONS – Third quarter ended September 30, 2018 compared to 2017

<i>In thousands of US dollars</i>	Three months ended September 30 (unaudited)		Nine months ended September 30 (unaudited)	
	2018	2017	2018	2017
EBITDA:				
Net Income	1,347	2,804	7,205	8,860
Finance costs	743	582	1,913	2,095
Depreciation and amortization, including loss on disposal	2,697	2,643	8,238	8,036
Income tax expense	563	347	2,587	1,816
EBITDA	5,350	6,376	19,943	20,807

NET SALES

Consolidated net sales increased by 8.3% and 11.4% for the three and nine month periods ended September 30, 2018, respectively. For the three month period ended September 30, 2018, net sales were up at the Rubber Solutions segment and sales at the Engineered Products segment were marginally lower than the same period in 2017. For the nine month period ended September 30, 2018, net sales were up in both the Rubber Solutions segment and the Engineered Products segment. At the Engineered Products segment, for both the three and nine periods net sales were higher in the defense business and lower in automotive for the reasons discussed below.

Three months ended September 30 <i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	Total
Net Sales	2018	37,193	40,580	77,773
	2017	30,793	41,044	71,837
Increase (decrease) \$		6,400	(464)	5,936
Increase (decrease) %		20.8	(1.1)	8.3

Nine months ended September 30 <i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	Total
Net Sales	2018	109,680	130,439	240,119
	2017	94,178	121,463	215,641
Increase (decrease) \$		15,502	8,976	24,478
Increase (decrease) %		16.5	7.4	11.4

Rubber Solutions

For the three month period ended September 30, 2018, net sales for Rubber Solutions increased by 20.8%, to \$37,193, from \$30,793 in the comparable period in 2017. The increase in net sales was due to overall volume (measured in pounds shipped) increasing by 25.7% and an increase of approximately 2.6% in raw material costs that resulted in price increases to customers. The increase in net sales was reflected across the majority of sectors, and in particular in the conveyor belt, track and infrastructure sectors.

Tolling volumes for the three month period ended September 30, 2018 increased by 139.1% compared to the same period in 2017, with strong gains experienced in both niche and conventional tolling. Non-tolling volumes for the quarter ended September 30, 2018 were up by 11.8% compared to the same period in 2017.

Net sales in Rubber Solutions for the nine month period ended September 30, 2018 increased by 16.5%, to \$109,680, from \$94,178 in 2017. The increase in net sales was a result of a 15.2% increase in overall volume and an increase of approximately 12.7% in raw material costs that resulted in price increases to customers. The increase in net sales was reflected across the majority of sectors, and primarily in the conveyor belt, mining, track and off the road (“OTR”) sectors. These increases were partly offset by softness in the third-party automotive and chemical sectors.

Tolling volumes for the nine month period ended September 30, 2018 increased by 119.6% compared to 2017. The increase was in both niche and conventional tolling applications. Non-tolling volumes for the nine month period ended September 30, 2018 were 1.1% higher as compared to the same period in 2017.

Engineered Products

Net sales in the Engineered Products segment for the three and nine month periods ended September 30, 2018 decreased by 1.1%, to \$40,580, and increased by 7.4% to \$130,439, respectively, from the comparable periods in the prior year. For both the three and nine month periods ended September 30, 2018, net sales increased in the defense business and were down in the automotive business from the comparable periods in 2017.

MD&A (cont'd)

RESULTS OF OPERATIONS – Third quarter ended September 30, 2018 compared to 2017

Net sales in the automotive business decreased by 7.3% and 2.8% for the three and nine month periods ended September 30, 2018, respectively, compared to the same periods in the prior year. The decreases on a comparable basis for both periods were primarily in muffler hangers, spring isolators, dampers and boots and were partially offset by increases in bushing and induction bonding applications. The decrease in the spring isolator product line was due to the previously disclosed end of a vehicle program.

Net sales in the defense business increased by 26.0% and 58.1% for the three and nine month periods ended September 30, 2018, respectively, compared to the same periods in the prior year. For both periods, the increases were across most major product lines, and in particular in filters, powered air purifying respirators (“PAPRs”), overboots, shelters and masks. These increases were partly offset by lower demand in the gloves product line in both periods compared to 2017.

GROSS PROFIT

For the three month period ended September 30, 2018, consolidated gross profit decreased by \$532, to \$9,562, compared to the same period in 2017. As a percentage of net sales, gross profit decreased from 14.1% to 12.3%. These decreases were due to lower net sales and higher input costs in the automotive business within the Engineered Products segment, particularly with respect to rubber and steel, as a result of the tariffs introduced in the United States.

For the nine months ended September 30, 2018, consolidated gross profit increased by \$1,727, to \$34,685, compared to the same period in 2017. As a percentage of net sales, gross profit for the period decreased from 15.3% to 14.4% primarily as a result of lower net sales and higher input costs in the automotive business within the Engineered Products segment. In addition, higher material costs in Rubber Solutions also dampened gross profit as a percentage of net sales.

Three months ended September 30		Rubber Solutions	Engineered Products	Total
<i>In thousands of US dollars</i>				
Gross Profit	2018	5,110	4,452	9,562
	2017	3,316	6,778	10,094
Increase (decrease) \$		1,794	(2,326)	(532)
% of net sales	2018	13.7	11.0	12.3
	2017	10.8	16.5	14.1

Nine months ended September 30		Rubber Solutions	Engineered Products	Total
<i>In thousands of US dollars</i>				
Gross Profit	2018	16,298	18,387	34,685
	2017	14,565	18,393	32,958
Increase (decrease) \$		1,733	(6)	1,727
% of net sales	2018	14.9	14.1	14.4
	2017	15.5	15.1	15.3

Rubber Solutions

Gross profit at Rubber Solutions for the three month period ended September 30, 2018 increased by 54.1% to \$5,110 (13.7% of net sales) compared to \$3,316 (10.8% of net sales) in the comparable period in 2017. The increase was principally due to higher volume for reasons discussed above.

Gross profit at Rubber Solutions for the nine month period ended September 30, 2018 increased by 11.9% to \$16,298 (14.9% of net sales) compared to \$14,565 (15.5% of net sales) in the comparable period in 2017. The increase was due to higher volume and partly offset by higher raw material costs. In addition, higher labour costs as a result of provincial changes in the Ontario Employment Standards Act, increased maintenance and freight costs combined with higher training costs further reduced gross profit.

Engineered Products

Gross profit in the Engineered Products segment for the three month period ended September 30, 2018 was \$4,452 (11.0% of net sales) down \$2,326 from \$6,778 (16.5% of net sales) in the comparable period in 2017. For the nine month period ended September 30, 2018, gross profit was \$18,387 (14.1% of net sales), essentially flat from \$18,393 (15.1% of net sales) in the comparable period in 2017. For both the three and nine month periods ended September 30, 2018, the decrease in gross profit and gross profit as a percentage of net sales compared to 2017 was due to the lower net sales in the Engineered Products' automotive business, for reasons discussed above, and higher input costs, particularly rubber and steel. These decreases more than offset the higher gross profit in the defense business as a result of increased net sales.

MD&A (cont'd)

RESULTS OF OPERATIONS – Third quarter ended September 30, 2018 compared to 2017

OPERATING EXPENSES

Consolidated operating expenses for the three month period ended September 30, 2018 increased by \$548, primarily due to a foreign exchange gain of \$166 compared to \$630 in the comparable period in 2017, and higher administration costs, including compensation and selling expenses, which were partly offset by lower research and development costs.

For the nine month period ended September 30, 2018, consolidated operating expenses increased by \$2,793 over the comparable period in 2017. The increase was primarily due a foreign exchange loss of \$620 compared to a foreign exchange gain of \$746 in 2017 and higher administration costs, which were partly offset by lower research and development costs.

Three months ended September 30 <i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	2018	1,967	4,179	763	6,909
	2017	1,847	4,136	378	6,361
Increase (decrease) \$		120	43	385	548
% of net sales	2018	5.3	10.3	N/A	8.9
	2017	6.0	10.1	N/A	8.9
<hr/>					
Nine months ended September 30 <i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	2018	6,068	12,903	4,009	22,980
	2017	5,854	12,116	2,217	20,187
Increase (decrease) \$		214	787	1,792	2,793
% of net sales	2018	5.5	9.9	N/A	9.6
	2017	6.2	10.0	N/A	9.4

Rubber Solutions

Operating expenses at Rubber Solutions for the three month and nine month periods ended September 30, 2018 were in line with spending in the comparable periods in 2017.

Engineered Products

At Engineered Products, operating expenses for the three month period ended September 30, 2018 were flat compared to 2017. Operating expenses for the nine month period ended September 30, 2018 increased by \$787 compared to 2017 primarily due to higher selling and administrative costs in the defense business primarily as a result of increased net sales.

Unallocated Corporate Costs

Unallocated corporate costs for the three month period ended September 30, 2018 increased by \$385 quarter compared to the same period in 2017, due to a decrease of \$220 in foreign exchange gains in 2018 compared to 2017 and increased administration costs of \$165.

For the nine month period ended September 30, 2018, unallocated corporate costs increased by \$1,792 primarily due to a foreign exchange loss of \$434 compared to a foreign exchange gain of \$597 in the same period of 2017, and an increase in administration costs of \$761.

FINANCE COSTS

Three months ended September 30 <i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Finance costs	2018	1,193	—	(450)	743
	2017	1,193	—	(611)	582
Increase (decrease) \$		—	—	161	161
% of net sales	2018	3.2	—	N/A	1.0
	2017	3.9	—	N/A	0.8

MD&A (cont'd)

RESULTS OF OPERATIONS – Third quarter ended September 30, 2018 compared to 2017

Nine months ended September 30 <i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Finance costs	2018	3,539	1	(1,627)	1,913
	2017	3,539	—	(1,444)	2,095
Increase (decrease) \$		—	1	(183)	(182)
% of net sales	2018	3.2	—	N/A	0.8
	2017	3.8	—	N/A	1.0

Finance costs for the three month period ended September 30, 2018 were \$743 (2017: \$582) reflecting higher interest rates partially offset by the favorable impact from the interest rate swap. Finance costs for the nine month period ended September 30, 2018 were \$1,913 (2017: \$2,095) reflecting a gain from the interest rate swap that was partially offset by higher interest rates.

INCOME TAX EXPENSE

The Company recorded an income tax expense of \$563 in the three month period ended September 30, 2018 (2017: \$347) for an effective income tax rate of 29.5% (11.0% in 2017).

The Company recorded an income tax expense of \$2,587 in the nine month period ended September 30, 2018 (2017: \$1,816) for an effective income tax rate of 26.4% (17.0% in 2017).

The Company conducts business in the US and in Canada. Each jurisdiction is subject to different tax rates and the Company's effective tax rate varies depending on the mix and volume of business in each jurisdiction, as well as the impact of incentives, effect of permanent differences and the resolution of prior period tax assessments. The effective tax rates increased in 2018 primarily due to the changes in U.S. tax legislation enacted on Dec 22, 2017 which limited the deductibility of the Company's intercompany interest expense.

NET INCOME AND EARNINGS PER SHARE

Net income totaled \$1,347 for the three month period ended September 30, 2018, compared to \$2,804 for the comparable period in 2017. The basic and fully diluted net earnings per share in the quarter was \$0.06 (2017 - \$0.12).

Net income totaled \$7,205 for the nine month period ended September 30, 2018, compared to \$8,860 for the comparable period in 2017. The basic and fully diluted net earnings per share in the nine month period was \$0.31 (2017 - \$0.38).

The decrease for both the three and nine month periods ended September 30, 2018, compared to the comparable periods in 2017, was primarily attributable to higher operating costs and increased income tax expenses for the reasons discussed above.

QUARTERLY INFORMATION

<i>In thousands of US dollars</i>	Net income per share			
Quarter Ended	Net Sales	Net Income	Basic	Diluted
2018				
September 30, 2018	77,773	1,347	0.06	0.06
June 30, 2018	81,797	2,660	0.11	0.11
March 31, 2018	80,549	3,198	0.14	0.14
2017				
December 31, 2017	74,214	3,772	0.17	0.16
September 30, 2017	71,837	2,804	0.12	0.12
June 30, 2017	73,877	3,180	0.14	0.14
March 31, 2017	69,927	2,875	0.12	0.12
2016				
December 31, 2016	63,040	1,401	0.06	0.06

Items impacting comparability of quarters

- There were no items impacting comparability during the first, second and third quarter of 2018.
- There were no items impacting comparability for all the quarters in 2017.
- The fourth quarter of 2016 was impacted by the write-off of the convertible promissory note in other assets of \$275 and \$48 of restructuring costs.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its remaining 2018 operating cash requirements, including required working capital investments, capital expenditures and scheduled debt repayments from cash on hand, cash flow from operations and its committed borrowing facilities. The Company's operating revolving loan facility provides financing up to \$60 million (2017: \$60 million). No amount was drawn against this facility at September 30, 2018.

For the nine month period ended September 30, 2018, cash of \$6,101 was provided by operations, (2017: \$2,495), \$3,789 was used in investing activities (2017: \$4,975), and \$6,367 was used in financing activities (2017: \$6,573). Cash and cash equivalents decreased by \$4,095 from \$17,748 to \$13,653, adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

For the nine months ended September 30, 2018, cash provided by operating activities increased \$3,606 compared to the same period in 2017. The increase was due to lower cash used for working capital of \$4,317, higher non-cash expenses of \$684, lower tax payments of \$296 which were partially offset by lower net income of \$1,655 and higher interest payments of \$36.

Cash used for working capital for the nine months ended September 30, 2018 decreased to \$9,501 (2017: \$13,818) as a result of the following factors:

- Accounts receivable increased by \$7,771; of which \$6,324 was attributable to Rubber Solutions which was consistent with higher net sales and \$1,447 to Engineered Products due to timing of collections and higher sales in the defense business;
- Inventory decreased by \$536; of which \$1,300 was at Rubber Solutions primarily due to enhanced inventory controls. This was partially offset by \$764 higher inventory at Engineered Products' automotive business to support the launch of a new replacement program and as a result of increased rubber costs;
- Prepaid expenses increased by \$1,173 and were up predominantly at Engineered Products due to tooling costs of \$838 at the automotive business that will be recovered from customers, and \$246 of vendor deposits at the defense business;
- Accounts payable increased by \$392 due to timing of payments; and
- Other provisions decreased by \$1,485 predominantly as a result of the exercise of vested restricted stock units.

Investing Activities

Property, Plant and Equipment

For the nine month period ended September 30, 2018, the following investments were made in:

- Rubber Solutions invested \$1,223 in property plant and equipment. Of this, \$291 was invested in growth initiatives and the remaining spend was to replace existing property, plant and equipment; and
- Engineered Products invested \$1,786 in property plant and equipment. Of this, \$1,256 was invested in growth initiatives and the remaining spend was to replace existing property, plant and equipment.

Intangible Assets

For the nine month period ended September 30, 2018, the Company invested \$780 in intangible assets primarily due to capitalizing certain eligible product development costs.

Financing activities

The Company's current credit facility is comprised of a \$60 million revolving facility, a term loan of \$75 million (consolidating the two prior outstanding acquisition financing loans with interest at LIBOR plus applicable margins from 175 to 275 basis points, depending on covenants), a term loan of approximately CAD \$5 million and an accordion feature of up to an additional \$50 million of availability, upon the satisfaction of customary conditions for such features. The maturity dates of the revolving credit facility and the US\$ term loan are December 2020. The CAD term loan was repaid in October 2018 upon maturity.

Deferred financing fees, less accumulated amortization have been deducted against the term loan for presentation purposes. The amortization period of deferred financing fees is 5 years and reported as finance costs.

During the quarter, the required principal repayments of \$999 (2017: \$1,001) were made pursuant to the term loans under the credit facility.

The Company paid dividends of \$1,245 during the quarter (2017: \$1,246).

Government assistance

During the third quarter of 2018, the Company recognized grants of \$30 (2017: \$25) to support certain initiatives which were offset against expenses; year-to-date \$113 (2017: \$75).

Scientific research and investment tax credits of \$321 (2017: \$41) were recognized in the quarter, research and development costs were reduced accordingly; year-to-date \$517 (2017: \$140).

Dividends

A quarterly dividend of \$0.07 per share was declared on August 13, 2018 and paid on October 15, 2018. Total annual dividends declared during 2017 were \$0.28 per common share.

Outstanding shares

As at November 7, 2018 the Company had 23,420,698 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

Included in the operating lease commitments was a rental agreement for corporate office space between the Company and a company controlled by the Chairman of the Company. The monthly lease rate approximates fair market rental value. During the third quarter of 2018, the Company paid rent for the corporate office of \$34 (2017: \$36); year-to-date \$105 (2017: \$114).

During the third quarter of 2018, the Company paid fees for the use of a facility in South Carolina of approximately \$5 (2017: \$7); year-to-date \$18 (2017: \$17) to a company in which the Chairman is an officer.

In 2014, the Company provided a share purchase loan of CAD \$1,000 to the President to purchase common shares of the Company. This loan is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or November 24, 2019. In 2016, the Company provided share purchase loans of \$372 (CAD \$250 each) to the Chief Financial Officer and the former Senior Executive Vice President, Corporate. In 2017, the outstanding share purchase loan of \$200 (CAD \$250) was repaid in full by the former Senior Executive Vice President, Corporate. The loan for the Chief Financial Officer is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or December 20, 2021. In the first quarter of 2018, the Company provided a share purchase loan of \$392 (CAD \$500) to the Chief Operating Officer. This loan is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or March 28, 2023. All share purchase loans bear interest at 1% annually with full recourse and interest is due and payable semi-annually. In total, 161,300 shares of the Company having a fair value of \$1,901 were pledged as collateral on these three loans. At September 30, 2018, the promissory notes of \$1,357, including accrued interest of \$9, were included in other assets. During the quarter, interest of \$nil (2017: \$nil) was paid.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies are provided in Note 3 to the annual consolidated financial statements for the year ended December 31, 2017, and have been applied consistently to all periods presented in these interim condensed consolidated financial statements. The accounting policies have been applied consistently by entities within the Group.

Recently adopted accounting standards and policies

The Company has initially adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), IFRS 9, Financial Instruments ("IFRS 9") and amendments made to Share-Based Payments ("IFRS 2"), effective January 1, 2018.

IFRS 15, Revenue from Contracts with Customers

The Company adopted IFRS 15 using the full retrospective approach. The adoption of the standard did not result in any restatement of previously reported results and did not have a material impact on the consolidated financial statements. The following should be read as a modification to the significant accounting policies in note 3 of the Company's annual audited consolidated financial statements for the year ended December 31, 2017.

Revenue Recognition Policy

Revenue recognition policies under the new standard are substantially consistent with prior reporting periods. The Company recognizes net sales primarily from two categories of goods and services: production of finished goods and tolling. Revenue for production of finished goods is recognized at the point in time control of the goods is transferred to the customer. Control of finished goods production transfers when the goods are shipped from the Company's manufacturing facilities to the customer. Revenue for tolling services is recognized over time as value is added to the raw materials which are controlled and provided by the customer.

Disclosures related to the nature, amount, timing and uncertainty of the Company's revenues and cash flows arising from contracts with customers have been included in the consolidated financial statements, with comparative information, including a breakdown of the Company's revenues between production and tolling.

IFRS 9, Financial Instruments

The adoption of IFRS 9 did not have a material impact on the consolidated financial statements. IFRS 9 includes an accounting policy choice between deferring the adoption of the new hedge accounting standards under IFRS 9 and continuing with the current IAS 39 hedge accounting standards. The Company has decided to continue to apply IAS 39 hedge accounting standards. The following should be read as a modification to the significant accounting policies in note 3 of the Company's annual audited consolidated financial statements for the year ended December 31, 2017.

(a) Financial assets and liabilities

The Company recognizes financial assets and financial liabilities initially at fair value and subsequently measures these at either fair value or amortized cost based on their classification under IFRS 9 as described below:

Fair value through profit or loss (FVTPL):

Financial assets and financial liabilities purchased or incurred, respectively, with the intention of generating earnings in the near term, and derivatives other than cash flow hedges, are classified as FVTPL. This category includes cash and cash equivalents, and derivative assets and derivative liabilities that do not qualify for hedge accounting. For items classified as FVTPL, the Company initially recognizes such financial assets on the consolidated statement of financial position at fair value and recognizes subsequent changes in the consolidated statement of profit. Transaction costs incurred are expensed in the consolidated statement of profit. The Company does not currently hold any liabilities designated as FVTPL.

Fair value through other comprehensive income (FVTOCI):

This category includes the Company's investments in equity securities. Subsequent to initial recognition, they are measured at fair value on the consolidated statement of financial position and changes therein are recognized in other comprehensive income. When an investment is derecognized, the accumulated gain or loss in other comprehensive income is transferred to the statement of profit.

Amortized cost:

The Company classifies financial assets held to collect contractual cash flows at amortized cost, including trade and other receivables. The Company initially recognizes the carrying amount of such assets on the consolidated statement of financial position at fair value plus directly attributable transaction costs, and subsequently measures these at amortized cost using the effective interest rate method, less any impairment losses.

Other financial liabilities:

This category is for financial liabilities that are not classified as FVTPL and includes trade and other payables and long-term debt. These financial liabilities are recorded at amortized cost on the consolidated statement of financial position.

(b) Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. The ECL model is used in determining the allowance for doubtful accounts as it relates to trade and other receivables. The existing model aligns with the simplified approach under IFRS 9, which measures lifetime ECL and forward-looking information. The Company's allowance is determined by historical experiences, and considers factors including the aging of the balances, the customer's credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets/location of customers. The adoption of IFRS 9 did not have a material impact on the Company's policy for assessing impairment of financial assets.

(c) Derivative financial instruments

The Company uses derivative financial instruments as described in note 8 of the financial statements which do not meet the criteria for hedge accounting.

Recently issued accounting standards

The IASB issued the following amendments to existing standards:

IFRS 16, Leases

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. The standard applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard removes the distinction between operating and finance leases with assets and liabilities recognized in respect of all leases. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of IFRS 16 on the consolidated financial statements. The extent of the impact has not yet been determined.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent quarter, there have been no changes in the Company's policies and procedures and other processes that comprise its internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

FINANCIAL INSTRUMENTS

Foreign exchange hedge

At September 30, 2018, the Company had contracts to sell US \$15,647 from October 2018 to June 2019 for CAD \$20,222. The fair value of these contracts, representing an unrealized loss of \$25 is recorded in the statement of financial position included in trade and other payables, including derivatives and changes in fair value are recorded on the statement of profit as other income (expense).

At December 31, 2017, the Company had contracts to sell US \$13,272 from January 2018 to September 2018 for CAD \$16,966. The fair value of these contracts, representing an unrealized gain of \$252 was recorded in the statement of financial position included in trade and other receivables, including derivatives and changes in fair value are recorded on the statement of profit as other income (expense).

MD&A (cont'd)

Interest rate swap

During the first quarter of 2017, the Company entered into an interest rate swap agreement for a notional amount of \$35 million. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%. The swap agreement matures on December 10, 2020.

During the third quarter of 2018, the interest income on the swap agreement was \$32 and \$32 was received; (2017: expense of \$39 and \$39 was paid); year-to-date interest income of \$33 and \$33 was received (2017: expense of \$131 and \$131 was paid).

At September 30, 2018, the fair value of this agreement, representing a gain of \$684, was included in loans and borrowings on the statement of financial position. For the quarter ended September 30, 2018, the change in the fair value of \$45 (2017: 52) was recorded on the statement of profit as finance costs; year to date \$419 (2017: \$21).

At December 31, 2017, the fair value of this agreement, representing a gain of \$275, was included in loans and borrowings on the statement of financial position.

The Company has entered into this interest rate swap agreement in order to fix the interest rate on a portion of its term loan and does not intend to hold for trading or speculative purposes.

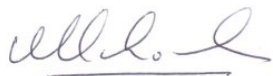
OUTLOOK

The Company is beginning to see improvements from the implementation of the AirBoss operating system, particularly in the Rubber Solutions segment. Scaling and increasing the pace of these improvements remains a high priority, as the business continues to experience volatility with respect to raw material pricing and higher freight and other input costs. Notwithstanding the recent United States-Mexico-Canada Agreement ("USMCA") there is continued uncertainty in global trading relationships resulting from the current tariff environment and the corresponding impact on some of our customers' confidence in future demand. Despite these headwinds, the current pipeline remains solid and broad-based across our business segments and among the sectors we serve. The recently announced awards at AirBoss Defense, the defense products line of the Company's Engineered Products segment, are particularly encouraging.

In the Rubber Solutions segment, operational improvement initiatives have started to result in meaningful gains, the pipeline of business is robust and the Company expects continued strong results in the fourth quarter of 2018. In the Engineered Products' automotive business, the implementation of the operational and commercial initiatives is continuing and expected to lead to improved results in 2019. The defense business is expected to continue performing strongly for the remainder of 2018 and beyond, anchored by the four previously announced contracts as well as securing additional awards for the future, although there is some uncertainty as to the timing and size of orders under existing contracts and new tenders.

The Company is encouraged by the operational improvements achieved to date, though there remains much work to be done. With its healthy balance sheet and revamped leadership team, the Company maintains a strong position to serve its customers and take advantage of growth opportunities.

November 7, 2018



Gren Schoch
Chairman and Chief Executive Officer



Daniel Gagnon
Chief Financial Officer

Notice of Disclosure of Non-Auditor Review of Interim Financial Statements

For the three and nine month periods ended September 30, 2018 and September 30, 2017.

Pursuant to Ontario Securities Legislations' National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company for the interim periods ended September 30, 2018 and September 30, 2017 have been prepared in accordance with IAS 34 Interim Financial reporting and are the responsibility of the Company's management.

The Company's independent auditors, KPMG LLP, have not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants Canada for a review of interim financial statements by an entity's auditor.

Dated this November 7, 2018

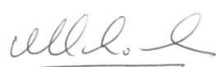
Interim Condensed Consolidated Statement of Financial Position

Unaudited

<i>In thousands of US dollars</i>	<i>Note</i>	September 30, 2018	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents		13,653	17,748
Trade and other receivables, including derivatives	4, 8	59,210	51,778
Prepaid expenses		4,368	3,205
Inventories	5	37,755	38,291
Current income taxes receivable	12	1,966	1,104
Total current assets		116,952	112,126
Non-current assets			
Property, plant and equipment		56,729	59,591
Intangible assets		51,195	52,782
Other assets	6	1,806	1,449
Total non-current assets		109,730	113,822
Total assets		226,682	225,948
LIABILITIES			
Current liabilities			
Loans and borrowings	7	5,705	6,398
Trade and other payables, including derivatives	8	32,243	31,942
Provisions	9	226	1,242
Total current liabilities		38,174	39,582
Non-current liabilities			
Loans and borrowings	7	60,275	62,859
Employee benefits	14	532	560
Provisions	9	689	639
Deferred income tax liabilities	12	5,445	5,147
Total non-current liabilities		66,941	69,205
Total liabilities		105,115	108,787
EQUITY			
Share capital	10	39,628	37,860
Contributed surplus	10	1,282	2,067
Retained earnings		80,657	77,234
Total equity		121,567	117,161
Total liabilities and equity		226,682	225,948

The notes on pages 17 to 27 are an integral part of these interim condensed consolidated financial statements.

On behalf of the Board



P.G. Schoch
Director



Robert L. McLeish
Director

Interim Condensed Consolidated Statement of Profit and Comprehensive Income

Unaudited

For the three and nine month periods ended September 30 <i>In thousands of US dollars</i>		Three month		Nine month		
		Note	2018	2017	2018	2017
Net Sales			77,773	71,837	240,119	215,641
Cost of sales			(68,211)	(61,743)	(205,434)	(182,683)
Gross profit			9,562	10,094	34,685	32,958
General and administrative expenses			(5,429)	(5,205)	(16,848)	(15,464)
Selling and marketing expenses			(1,374)	(1,201)	(4,120)	(3,750)
Research and development expenses	13		(272)	(585)	(1,392)	(1,708)
Other income (expenses)			166	630	(620)	735
			(6,909)	(6,361)	(22,980)	(20,187)
Results from operating activities			2,653	3,733	11,705	12,771
Finance costs	7,14		(743)	(582)	(1,913)	(2,095)
Profit before income tax			1,910	3,151	9,792	10,676
Income tax expense	12		(563)	(347)	(2,587)	(1,816)
Profit and total comprehensive income for the period			1,347	2,804	7,205	8,860
Earnings per share						
Basic	11		0.06	0.12	0.31	0.38
Diluted	11		0.06	0.12	0.31	0.38

The notes on pages 17 to 27 are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Changes in Equity

Unaudited

<i>In thousands of US dollars</i>	Attributable to equity holders of the Company			
	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance at January 1, 2017	37,826	1,899	69,558	109,283
Profit and total comprehensive income for the period	—	—	8,860	8,860
Contributions by and distributions to owners				
Stock options expensed	—	236	—	236
Stock options exercised	12	(60)	—	(48)
Dividends to equity holders	—	—	(3,702)	(3,702)
Total contributions by and distributions to owners	12	176	(3,702)	(3,514)
Balance at September 30, 2017	37,838	2,075	74,716	114,629
Contributions by and distributions to owners				
Balance at January 1, 2018	37,860	2,067	77,234	117,161
Profit and total comprehensive income for the period	—	—	7,205	7,205
Contributions by and distributions to owners				
Stock options expensed	—	153	—	153
Stock options exercised	1,786	(852)	—	934
Share repurchases	(18)	(86)	—	(104)
Dividends to equity holders	—	—	(3,782)	(3,782)
Total contributions by and distributions to owners	1,768	(785)	(3,782)	(2,799)
Balance at September 30, 2018	39,628	1,282	80,657	121,567

The notes on pages 17 to 27 are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Cash Flows

Unaudited

For the nine month period ended September 30 In thousands of US dollars	Note	2018	2017
Cash flows from operating activities			
Profit for the nine month period ended September 30		7,205	8,860
Adjustments for:			
Depreciation		5,871	5,540
Amortization of intangible assets		2,367	2,496
Finance costs	7,14	1,913	2,095
Unrealized foreign exchange loss (gain)		218	(104)
Share-based payment expense	10	752	856
SRED tax credits		(517)	(140)
Current income tax expense	12	2,206	2,166
Deferred income tax expense (recovery)	12	381	(350)
Other		(54)	(106)
		20,342	21,313
Change in inventories		536	(7,918)
Change in trade and other receivables		(7,771)	(8,455)
Change in prepaid expenses		(1,173)	(532)
Change in trade and other payables		392	3,660
Change in provisions	9	(1,485)	(573)
Net change in non-cash working capital balances		(9,501)	(13,818)
Interest paid		(2,085)	(2,049)
Income tax paid		(2,655)	(2,951)
Net cash provided by operating activities		6,101	2,495
Cash flows from investing activities			
Acquisition of property, plant and equipment		(3,009)	(3,924)
Acquisition of intangible assets		(780)	(1,051)
Net cash used in investing activities		(3,789)	(4,975)
Cash flows from financing activities			
Repayment of borrowings		(3,005)	(3,001)
Exercise of stock options (net of withholding taxes)		934	—
Issuance of share purchase loans		(392)	—
Share repurchases		(104)	—
Interest received on share purchase loans		5	5
Dividends paid	10	(3,805)	(3,577)
Net cash used in financing activities		(6,367)	(6,573)
Net decrease in cash and cash equivalents		(4,055)	(9,053)
Cash and cash equivalents at January 1		17,748	27,971
Effect of exchange rate fluctuations on cash held		(40)	(95)
Cash and cash equivalents at September 30		13,653	18,823

The notes on pages 17 to 27 are an integral part of these interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements (“CFS”)

For the three and nine month periods ended September 30, 2018 and September 30, 2017

(Amounts in thousands of US dollars, except per share amounts, unless otherwise specified)

NOTE 1 REPORTING ENTITY

AirBoss of America Corp. (“the Company”) is a public company listed on the Toronto Stock Exchange, incorporated and domiciled in Ontario. The address of the Company’s registered office is 16441 Yonge Street, Newmarket, Ontario, Canada. The interim condensed consolidated financial statements of the Company as at and for the three and nine month periods ended September 30, 2018 comprise the Company and its subsidiaries (together referred to as the “Group” and separately as “Group entities”). The Group has operations in Canada and the US and is involved primarily in the manufacture of high quality rubber-based products to resource, military, automotive and industrial markets (see Note 15 Segmented Information).

NOTE 2 BASIS OF PREPARATION

Statement of compliance

The interim condensed consolidated financial statements should be read in conjunction with the Company’s 2017 audited annual consolidated financial statements and accompanying notes.

The interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 7, 2018.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies are provided in Note 3 to the annual consolidated financial statements for the year ended December 31, 2017, and have been applied consistently to all periods presented in these interim condensed consolidated financial statements. The accounting policies have been applied consistently by entities within the Group.

Recently adopted accounting standards and policies

The Company has initially adopted IFRS 15, Revenue from Contracts with Customers (“IFRS 15”), IFRS 9, Financial Instruments (“IFRS 9”) and amendments made to Share-Based Payments (“IFRS 2”), effective January 1, 2018.

IFRS 15, Revenue from Contracts with Customers

The Company adopted IFRS 15 using the full retrospective approach. The adoption of the standard did not result in any restatement of previously reported results and did not have a material impact on the consolidated financial statements. The following should be read as a modification to the significant accounting policies in note 3 of the Company’s annual audited consolidated financial statements for the year ended December 31, 2017.

Revenue Recognition Policy

Revenue recognition policies under the new standard are substantially consistent with prior reporting periods. The Company recognizes net sales primarily from two categories of goods and services: production of finished goods and tolling. Revenue for production of finished goods is recognized at the point in time control of the goods is transferred to the customer. Control of finished goods production transfers when the goods are shipped from the Company’s manufacturing facilities to the customer. Revenue for tolling services is recognized over time as value is added to the raw materials which are controlled and provided by the customer.

Disclosures related to the nature, amount, timing and uncertainty of the Company’s revenues and cash flows arising from contracts with customers have been included in the consolidated financial statements, with comparative information, including a breakdown of the Company’s revenues between production and tolling.

IFRS 9, Financial Instruments

The adoption of IFRS 9 did not have a material impact on the consolidated financial statements. IFRS 9 includes an accounting policy choice between deferring the adoption of the new hedge accounting standards under IFRS 9 and continuing with the current IAS 39 hedge accounting standards. The Company has decided to continue to apply IAS 39 hedge accounting standards. The following should be read as a modification to the significant accounting policies in note 3 of the Company’s annual audited consolidated financial statements for the year ended December 31, 2017.

(a) Financial assets and liabilities

The Company recognizes financial assets and financial liabilities initially at fair value and subsequently measures these at either fair value or amortized cost based on their classification under IFRS 9 as described below:

Fair value through profit or loss (FVTPL):

Financial assets and financial liabilities purchased or incurred, respectively, with the intention of generating earnings in the near term, and derivatives other than cash flow hedges, are classified as FVTPL. This category includes cash and cash equivalents, and derivative assets and derivative liabilities that do not qualify for hedge accounting. For items classified as FVTPL, the Company initially recognizes such financial assets on the consolidated statement of financial position at fair value and recognizes subsequent changes in the consolidated statement of profit. Transaction costs incurred are expensed in the consolidated statement of profit. The Company does not currently hold any liabilities designated as FVTPL.

Fair value through other comprehensive income (FVTOCI):

This category includes the Company's investments in equity securities. Subsequent to initial recognition, they are measured at fair value on the consolidated statement of financial position and changes therein are recognized in other comprehensive income. When an investment is derecognized, the accumulated gain or loss in other comprehensive income is transferred to the statement of profit.

Amortized cost:

The Company classifies financial assets held to collect contractual cash flows at amortized cost, including trade and other receivables. The Company initially recognizes the carrying amount of such assets on the consolidated statement of financial position at fair value plus directly attributable transaction costs, and subsequently measures these at amortized cost using the effective interest rate method, less any impairment losses.

Other financial liabilities:

This category is for financial liabilities that are not classified as FVTPL and includes trade and other payables and long-term debt. These financial liabilities are recorded at amortized cost on the consolidated statement of financial position.

(b) Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. The ECL model is used in determining the allowance for doubtful accounts as it relates to trade and other receivables. The existing model aligns with the simplified approach under IFRS 9, which measures lifetime ECL and forward-looking information. The Company's allowance is determined by historical experiences, and considers factors including the aging of the balances, the customer's credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets/location of customers. The adoption of IFRS 9 did not have a material impact on the Company's policy for assessing impairment of financial assets.

(c) Derivative financial instruments

The Company uses derivative financial instruments as described in note 8 of the financial statements which do not meet the criteria for hedge accounting.

Recently issued accounting standards

The IASB issued the following amendments to existing standards:

IFRS 16, Leases

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. The standard applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard removes the distinction between operating and finance leases with assets and liabilities recognized in respect of all leases. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of IFRS 16 on the consolidated financial statements. The extent of the impact has not yet been determined.

NOTE 4 TRADE AND OTHER RECEIVABLES

<i>In thousands of US dollars</i>	September 30, 2018	December 31, 2017
Trade receivables	58,826	50,870
Less: allowance for doubtful accounts	(126)	(185)
	58,700	50,685
Other receivables	510	1,093
	59,210	51,778

AirBoss of America Corp.

Notes to CFS (cont'd)

Impairment losses

The aging of trade receivables at the reporting date was:

<i>In thousands of US dollars</i>	September 30, 2018		December 31, 2017	
	Gross	Impairment	Gross	Impairment
Within terms	46,112	—	39,387	—
Past due 0-30 days	7,845	—	8,935	—
Past due 31-120 days	4,869	(126)	2,548	(185)
	58,826	(126)	50,870	(185)

The continuity of the allowance for doubtful accounts was:

<i>In thousands of US dollars</i>	September 30, 2018	December 31, 2017
Balance at January 1	(185)	(95)
Impairment loss recognized	(37)	(90)
Collected	96	—
Balance	(126)	(185)

NOTE 5 INVENTORIES

<i>In thousands of US dollars</i>	September 30, 2018	December 31, 2017
Raw materials and consumables	27,591	26,663
Work in progress	3,276	3,657
Finished goods	7,810	8,299
Inventory in transit	1,467	2,012
	40,144	40,631
Provisions	(2,389)	(2,340)
	37,755	38,291

An inventory charge of \$49 (2017: \$994) was included in cost of sales for the increase in provisions.

NOTE 6 OTHER ASSETS

<i>In thousands of US dollars</i>	Share purchase loan	10% equity investment	Other	Total
Balance at January 1, 2017	1,119	313	133	1,565
Accrued interest	11	—	—	11
Interest received	(11)	—	—	(11)
Repayment of loan	(193)	—	—	(193)
Effect of movements in exchange rates	71	—	6	77
Balance at December 31, 2017	997	313	139	1,449
Accrued interest	9	—	—	9
Interest received	(5)	—	—	(5)
New loan issuances	392	—	—	392
Effect of movements in exchange rates	(36)	—	(3)	(39)
Balance at September 30, 2018	1,357	313	136	1,806

NOTE 7 LOANS AND BORROWINGS

The Company is not in default under, nor has it breached any terms of, its syndicated credit agreement relating to its revolving and term loan credit facilities.

During the third quarter of 2018, the Company accrued \$733 (2017: \$616) and paid \$683 (2017: \$558) interest expense on term loans under its syndicated credit facilities (excluding the gain on its interest rate swap agreement); year-to-date \$1,971 and \$1,977 (2017: \$2,098 and \$1,914), respectively.

NOTE 8 DERIVATIVES NOT MEETING HEDGE ACCOUNTING CRITERIA**Foreign exchange hedge**

At September 30, 2018, the Company had contracts to sell US \$15,647 from October 2018 to June 2019 for CAD \$20,222. The fair value of these contracts, representing an unrealized loss of \$25 is recorded in the statement of financial position included in trade and other payables, including derivatives and changes in fair value are recorded on the statement of profit as other income (expense).

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Interest rate swap

During the first quarter of 2017, the Company entered into an interest rate swap agreement for a notional amount of \$35 million. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%. The swap agreement matures on December 10, 2020.

During the third quarter of 2018, the interest income on the swap agreement was \$32 and \$32 was received; (2017: expense of \$39 and \$39 was paid); year-to-date interest income of \$33 and \$33 was received (2017: expense of \$131 and \$131 was paid).

At September 30, 2018, the fair value of this agreement, representing a gain of \$684, was included in loans and borrowings on the statement of financial position. For the quarter ended September 30, 2018, the change in the fair value of \$45 (2017: 52) was recorded on the statement of profit as finance costs; year to date \$419 (2017: \$21).

At December 31, 2017, the fair value of this agreement, representing a gain of \$275, was included in loans and borrowings on the statement of financial position.

The Company has entered into this interest rate swap agreement in order to fix the interest rate on a portion of its term loan and does not intend to hold for trading or speculative purposes.

NOTE 9 PROVISIONS

<i>In thousands of US dollars</i>	Site restoration	Restricted stock units	Performance awards and Deferred stock units	Lease incentives	Total
Balance at January 1, 2017	74	1,337	105	265	1,781
Provisions accrued during the year	—	329	240	—	569
Payments during the year	—	(549)	—	—	(549)
Amortization during the year	—	—	—	(26)	(26)
Foreign exchange	—	85	21	—	106
Balance at December 31, 2017	74	1,202	366	239	1,881
Provisions accrued during the period	—	316	287	(30)	573
Payments during the period	—	(1,485)	—	—	(1,485)
Forfeitures	—	—	(6)	—	(6)
Foreign exchange	—	(33)	(15)	—	(48)
Total	74	—	632	209	915
Less current portion due within one year	—	—	(175)	(51)	(226)
Non-current balance at September 30, 2018	74	—	457	158	689

No legal provisions are recognized at September 30, 2018 and December 31, 2017.

AirBoss of America Corp.

Notes to CFS (cont'd)

Restricted Stock Units

Pursuant to the Omnibus Plan, the Company issued to certain executives an aggregate of 150,000 restricted stock units. Each restricted stock unit entitles the holder to receive on vesting, at the sole discretion of the Company, either one common share or a cash payment equal to the fair market value of a common share as of the vesting date. The restricted stock units vest three years following the grant date and have no performance requirements.

<i>Restricted stock units</i>	September 30, 2018	December 31, 2017	September 30, 2017
January 1	150,000	224,000	224,000
Forfeitures	—	(15,000)	—
Exercised	(150,000)	(59,000)	(59,000)
Balance	—	150,000	165,000

During the second quarter of 2018 and year-to-date, 150,000 fully vested restricted stock units were exercised for \$1,485 in cash (2017: third quarter 1,000 units for \$11 in cash, year-to-date 59,000 units for \$549 in cash). No new restricted stock units were issued and there were no forfeitures in the third quarter of 2018 and 2017. During the third quarter of 2018, the Company did not recognize any employee costs related to the plan (2017: \$11); year-to-date \$316 (2017: \$411) related to the plan.

Performance Stock Units

The Company has issued certain executives with an aggregate of 121,638 performance stock units pursuant to the terms and conditions of the Omnibus Plan. Each performance award entitles the holder to receive on vesting a cash payment equal to the product of (a) the fair market value of a common share as of the vesting date and (b) a performance factor between 0.5 and 2.0, based on the level of achievement of predetermined performance objectives over the vesting period generally. The performance stock units vest three years following the grant date.

<i>Performance stock units</i>	September 30, 2018	December 31, 2017	September 30, 2017
January 1	93,333	50,680	50,680
New issuances	29,933	55,830	49,002
Forfeitures	(1,628)	(13,177)	(3,911)
Balance	121,638	93,333	95,771

During the third quarter of 2018, nil (2017: nil) performance stock units were issued. During the third quarter of 2018, the Company recognized employee cost recoveries of \$42 (2017: costs of \$35) related to the plan; year-to-date costs of \$149 (2017: costs of \$94) related to the plan.

Deferred Stock Units

The Company has issued deferred stock units ("DSUs") to non-executive directors pursuant to the terms and conditions of the Omnibus Plan. Each vested DSU entitles the holder to receive, on redemption, either: (a) one common share; (b) a cash payment equal to the fair market value of a common share as of the redemption date; or (c) a combination of both cash and common shares, at the sole discretion of the Company. The redemption of a DSU occurs only following the termination of a holder's service as director and will occur on either: (a) a date selected by a recipient following the termination of their services as a director (which can be no earlier than 10 days, and no later than one year, after the service termination date); or (b) a date selected by the Company following the death of the recipient while still serving as director (which can be no later than 90 days following the death of the recipient). Under the terms of compensation for independent directors of the Company approved by the Compensation Committee and the Board in 2016, commencing with the second quarter of 2016 and for each subsequent quarter while he or she remains a director, each independent director is to be granted a number of DSUs having a fair market value equal to CAD \$6.25. The fair market value of each DSU is equal to the volume-weighted average trading price of a Common Share on the TSX for the 5 trading days preceding the relevant grant date. In addition to this fixed amount of DSUs, independent directors are able to elect to be paid all or a portion of all other director's fees in DSUs in lieu of cash, using the same calculation of fair market value as for the fixed amount of DSUs, to be granted on a quarterly basis. All DSUs issued to independent directors vest three months following the relevant grant date. The compensation expense is accrued over the vesting period with a corresponding increase in liabilities in the amount which represents the fair value of the amount payable to the independent director in respect of the DSUs.

<i>Deferred stock units</i>	September 30, 2018	December 31, 2017	September 30, 2017
January 1	30,005	11,428	11,428
New issuances	13,083	18,577	13,388
Balance	43,088	30,005	24,816

At September 30, 2018, independent directors were granted an aggregate of 43,088 DSUs with a fair value of \$417 at the date of grant. During the third quarter of 2018, the Company recognized as employee cost recoveries of \$72 (2017: costs of \$23) related to DSUs issued under the Omnibus Plan; year-to-date costs of \$132 (2017: costs of \$116) related to the plan.

NOTE 10 CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital and Contributed Surplus
Issued share capital is as follows:

<i>In thousands of shares</i>	September 30, 2018	December 31, 2017	September 30, 2017
January 1	23,091	23,074	23,074
Exercise of stock options	342	19	14
Share repurchases	(11)	(2)	—
Balance	23,422	23,091	23,088

Capital and other components of equity

Contributed surplus

Contributed surplus is comprised of the difference between the book value per share and the purchase price paid for shares acquired for cancellation by the Company and stock-based compensation of employees and non-employees.

Share options outstanding as at September 30

	2018	2017
Stock options granted and outstanding	525,696	1,028,616

Inputs for measurement of grant date fair values

The grant date fair values of all options were measured based on the Black-Scholes model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

Fair value of stock options and assumptions

<i>In Canadian dollars</i>	March 2018	November 2017	March 2017
Fair value at grant date	\$3.11	\$2.26	\$2.35
Share price at grant date	12.08	10.50	11.08
Exercise price	11.56	10.98	12.26
Expected volatility (weighted average volatility)	31.8%	32.0%	34.2%
Option life (expected weighted average life)	5 years	5 years	5 years
Expected dividends	2.3%	2.7%	2.5%
Risk-free interest rate (based on government bonds)	2.1%	1.7%	1.2%

Stock option expense

During the third quarter of 2018, the Company recognized as employee costs \$54 (2017: \$90) relating to option grants in general and administrative expenses of the statement of profit; year-to-date \$154 (2017: \$235).

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Notes to CFS (cont'd)

Dividends

Dividends on common shares were paid to shareholders of record quarterly in 2018 and in 2017 as follows:

Shareholder of record at:	2018		2017	
	\$CAD/share	Date Paid	\$CAD/share	Date Paid
September 30	0.07	October 15, 2018	0.07	October 13, 2017
June 30	0.07	July 16, 2018	0.07	July 14, 2017
March 31	0.07	April 16, 2018	0.07	April 14, 2017

The dividend payable at September 30, 2018 was \$1,267 (September 30, 2017: \$1,295), included in trade and other payables.

NOTE 11 EARNINGS PER SHARE

The following table sets forth the calculation of basic and diluted earnings per share:

For the three and nine month periods ended September 30 <i>In thousands of US dollars, except share amounts outstanding, per share amounts in US dollars</i>	Three month		Nine month	
	2018	2017	2018	2017
Numerator for basic and diluted earnings per share: Net income	1,347	2,804	7,205	8,860
Denominator for basic and diluted earnings per share:				
Basic weighted average number of shares outstanding	23,428	23,088	23,328	23,085
Dilution effect of stock options	43	260	24	267
Dilution of effect of restricted stock units	—	136	—	126
Dilution of effect of deferred stock units	35	15	30	11
Diluted weighted average number of shares outstanding	23,506	23,499	23,382	23,489
Net income per share:				
Basic	0.06	0.12	0.31	0.38
Diluted	0.06	0.12	0.31	0.38

For the three and nine month periods ended September 30, 2018, 150,250 options (2017: 170,200) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

NOTE 12 INCOME TAXES

For the three and nine month periods ended September 30 <i>In thousands of US dollars</i>	Three month		Nine month	
	2018	2017	2018	2017
Current tax expense:				
Current period	587	657	2,100	2,198
Adjustment for prior period	106	(5)	106	(32)
	693	652	2,206	2,166
Deferred tax expense:				
Origination and reversal of temporary differences	(24)	(263)	487	(326)
Adjustment for prior periods	(106)	(42)	(106)	(24)
	(130)	(305)	381	(350)
Total income tax expense	563	347	2,587	1,816

NOTE 13 GOVERNMENT ASSISTANCE

During the third quarter of 2018, the Company recognized grants of \$30 (2017: \$25) to support certain initiatives which were offset against expenses; year-to-date \$113 (2017: \$75).

Scientific research and investment tax credits of \$321 (2017: \$41) were recognized in the quarter, research and development costs were reduced accordingly; year-to-date \$517 (2017: \$140).

NOTE 14 POST RETIREMENT BENEFITS

September 30 <i>In thousands of US dollars</i>	Executive Supplemental Plan		Other benefit plan	
	2018	2017	2018	2017
The amounts recognized in the income statement are as follows:				
Post-retirement benefits recovery	—	—	(26)	(23)
Interest cost	—	11	14	14
Exchange differences	—	13	(16)	38
Expense	—	24	(28)	29

During the first quarter of 2017, in advance of the retirement of the executive covered by the Supplemental Plan, the Company reached an agreement with the executive to convert the defined benefit pension promise provided for under the Supplemental Plan into a notional defined contribution account balance of value that was equal to the December 31, 2016 defined benefit balance sheet liability of \$1,223 effective January 1, 2017. This notional defined contribution account balance was credited with interest at an agreed rate of 3.75% per annum, until it was paid out. On March 31, 2017 the defined contribution amount of \$1,247, which includes interest of \$11 and foreign exchange of \$13, was paid to the executive, eliminating the liability in full.

The current service charge was included in general and administrative expense and the interest cost is included in finance costs and exchange differences in other income (expense) in the income statement.

Defined Contribution Plan

AirBoss Flexible Products Co. ("AFP") maintains a 401(k) defined contribution plan for its employees. Total contributions and expenses to this plan during the period were \$150 (2017: \$103); year-to-date \$335 (2017: \$337)

The AirBoss group of companies in Canada maintains registered retirement savings plan and defined contribution plans for their employees. Total contribution and expense to this plan during the period were \$76 (2017: \$89); year-to-date \$219 (2017: \$225)

AirBoss Engineered Products Inc. employees are covered under various registered and unregistered defined contribution plans. Total contribution and expense to these plans during the period were \$37 (2017: \$35); year-to-date \$121 (2017: \$114)

Multi-Employer Pension Plan

AFP contributes to the Steel Workers Pension Trust, a multi-employer defined benefit pension plan under the terms of collective-bargaining agreements that cover its union-represented employees in the State of Michigan. The risks of participating in a multi-employer plan are different from participation in a single-employer plan in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If AFP chooses to stop participating in the multi-employer plan, AFP may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

During the quarter, AFP made contributions of \$69 (2017: \$69); year-to-date \$210 (2017: \$208) to the multi-employer pension plan. The unfunded vested benefit ratio was 66.8% at December 31, 2017 (2016: 68.0%). The Steel Workers Pension Trust was in a net deficit at December 31, 2017 and AFP's portion of the deficit was unknown. The collective bargaining agreement requires that AFP contributes \$0.40 for each hour worked by eligible employees during the preceding wage month.

NOTE 15 SEGMENTED INFORMATION

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Rubber Solutions. Includes manufacturing and distribution of rubber compounds and distribution of rubber compounding related chemicals.
- Engineered Products. Includes the manufacture and distribution of personal protection and safety products primarily for CBRN hazards and includes the manufacture and distribution of anti-vibration and noise dampening automotive parts.
- Corporate. Includes corporate activities and certain unallocated costs.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's CEO/Chairman and President. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Transfer pricing is based on third-party rates.

Inter-company amounts, which represent items purchased from different segments, have been presented within the segment disclosure and are eliminated to arrive at the consolidated amounts.

The Company operates primarily within North America with respect to its rubber compound and automotive products and globally with respect to its rubber protective products and has production facilities in Canada and the United States.

Information about reportable segments Three months ended September 30	Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
<i>In thousands of US dollars</i>								
Segment net sales	45,149	38,289	40,755	41,053	—	—	85,904	79,342
Inter-segment sales	(7,956)	(7,496)	(175)	(9)	—	—	(8,131)	(7,505)
External net sales	37,193	30,793	40,580	41,044	—	—	77,773	71,837
Depreciation and amortization includes loss on disposal of property, plant and equipment	1,235	1,277	1,444	1,360	18	11	2,697	2,648
Finance cost	1,193	1,193	—	—	(450)	(611)	743	582
Reportable segment profit (loss) before income tax	1,953	275	272	2,615	(315)	261	1,910	3,151
Income tax expense / (recovery)	1,127	109	(37)	585	(527)	(347)	563	347
Net Income (loss)	826	166	309	2,030	212	608	1,347	2,804
Reportable segment assets ¹	88,477	91,079	125,012	123,689	13,193	11,180	226,682	225,948
Reportable segment liabilities ¹	18,714	18,193	14,330	14,975	72,071	75,619	105,115	108,787
Capital expenditures ²	514	472	529	767	—	351	1,043	1,590

¹ Comparative figures as at December 31, 2017.

² Comparative figures as at September 30, 2017.

Notes to CFS (cont'd)

Information about reportable segments Nine months ended September 30	Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
<i>In thousands of US dollars</i>								
Segment net sales	137,401	116,051	130,896	121,611	—	—	268,297	237,662
Inter-segment sales	(27,721)	(21,873)	(457)	(148)	—	—	(28,178)	(22,021)
External net sales	109,680	94,178	130,439	121,463	—	—	240,119	215,641
Depreciation and amortization includes loss on disposal of property, plant and equipment	3,882	3,911	4,304	4,095	52	30	8,238	8,036
Finance cost	3,539	3,539	1	—	(1,627)	(1,444)	1,913	2,095
Reportable segment profit (loss) before income tax	6,692	5,172	5,482	6,279	(2,382)	(775)	9,792	10,676
Income tax expense/(recovery)	3,266	1,627	1,272	1,536	(1,951)	(1,347)	2,587	1,816
Net income (loss)	3,426	3,545	4,210	4,743	(431)	572	7,205	8,860
Reportable segment assets ¹	88,477	91,079	125,012	123,689	13,193	11,180	226,682	225,948
Reportable segment liabilities ¹	18,714	18,193	14,330	14,975	72,071	75,619	105,115	108,787
Capital expenditures ²	1,223	2,154	2,358	2,277	208	544	3,789	4,975

¹ Comparative figures as at December 31, 2017.

² Comparative figures as at September 30, 2017.

Geographical segments

The Rubber Solutions and Engineered Products segments operate manufacturing facilities and sales offices in the US and Canada, selling primarily in North American markets.

In presenting information on the basis of geographical segments, segment net sales is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Non-current assets include property, plant and equipment, software, goodwill, future income taxes and other assets.

<i>In thousands of US dollars</i>	Net Sales		Net Sales		Non-current assets		Non-current assets	
	Three months ended September 30	2017	Nine months ended September 30	2017	September 30	2017	December 31, 2017	
	2018		2018		2018			
Canada	11,759	11,009	33,778	35,027	44,339	45,196		45,450
United States	56,884	52,948	172,075	157,196	65,391	69,161		68,372
Other countries	9,130	7,880	34,266	23,418	—	—		—
	77,773	71,837	240,119	215,641	109,730	114,357		113,822

Major customers

Net sales from one customer represent approximately 7% (2017: 9%) of the Group's total net sales. Five customers represented 30% (2017: 29%) of the Company's total net sales.

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Notes to CFS (cont'd)

Major products

<i>In thousands of US dollars</i>	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Rubber Solutions				
Tolling	1,842	1,315	5,842	5,383
Mixing	27,355	21,591	80,948	64,650
Industrial	7,996	7,886	22,890	24,144
	37,193	30,792	109,680	94,177
Engineered Products				
Defense	9,613	7,628	32,105	20,302
Automotive	30,967	33,417	98,334	101,162
	40,580	41,045	130,439	121,464
Total	77,773	71,837	240,119	215,641

NOTE 16 RELATED PARTIES

Transactions with Related Parties

Included in the operating lease commitments was a rental agreement for corporate office space between the Company and a company controlled by the Chairman of the Company. The monthly lease rate approximates fair market rental value. During the third quarter of 2018, the Company paid rent for the corporate office of \$34 (2017: \$36); year-to-date \$105 (2017: \$114).

During the third quarter of 2018, the Company paid fees for the use of a facility in South Carolina of approximately \$5 (2017: \$7); year-to-date \$18 (2017: \$17) to a company in which the Chairman is an officer.

In 2014, the Company provided a share purchase loan of CAD \$1,000 to the President to purchase common shares of the Company. This loan is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or November 24, 2019. In 2016, the Company provided share purchase loans of \$372 (CAD \$250 each) to the Chief Financial Officer and the former Senior Executive Vice President, Corporate. In 2017, the outstanding share purchase loan of \$200 (CAD \$250) was repaid in full by the former Senior Executive Vice President, Corporate. The loan for the Chief Financial Officer is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or December 20, 2021. In the first quarter of 2018, the Company provided a share purchase loan of \$392 (CAD \$500) to the Chief Operating Officer. This loan is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or March 28, 2023. All share purchase loans bear interest at 1% annually with full recourse and interest is due and payable semi-annually. In total, 161,300 shares of the Company having a fair value of \$1,901 were pledged as collateral on these three loans. At September 30, 2018, the promissory notes of \$1,357, including accrued interest of \$9, were included in other assets. During the quarter, interest of \$nil (2017: \$nil) was paid.

NOTE 17 RECLASSIFICATION OF COMPARATIVE AMOUNTS

Certain comparative amounts for the prior period have been reclassified to conform to current period presentations. Such reclassifications had no effect on net income or shareholders' equity.

Corporate Information

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