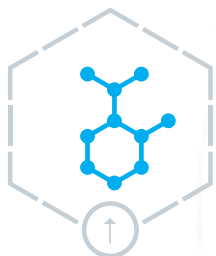




AIRBOSS OF AMERICA CORP.

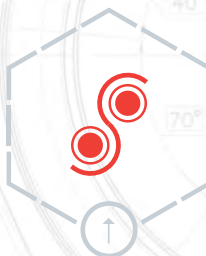
Annual Report



RUBBER
COMPOUNDING



AUTOMOTIVE



ENGINEERED
PRODUCTS



LOCATIONS

- Head Office
- Research Facility
- Compounding/Mixing
- Engineered Products
- Automotive

WHO WE ARE

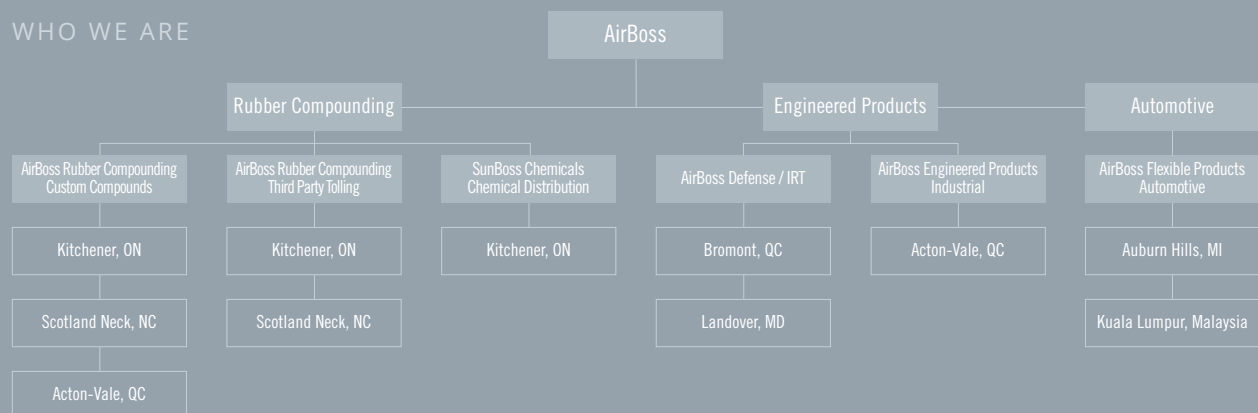


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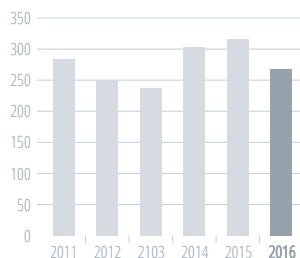
Why Our Businesses are **Leaders in Their Industries**

Our results over the past three years have been strong, in large part because our three divisions continue to be among the leaders in their sectors.

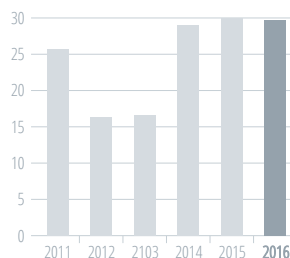
While our growth slowed in 2016, our leadership in the markets we serve did not.

Rubber Compounding remains one of North America's leading custom rubber compounding companies. Automotive is a key supplier of automotive anti-vibration and noise reduction solutions. Our defense business is a top global supplier of Chemical, Biological, Radiological and Nuclear ("CBRN") military and first-response personal protective equipment and portable shelters.

All our divisions are in the business of transforming rubber into higher-margin specialized compounds and finished goods. We apply innovative chemistry and engineered design to create products used by a growing number of industries worldwide.



REVENUE

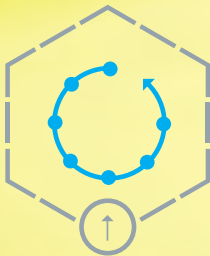


EBITDA

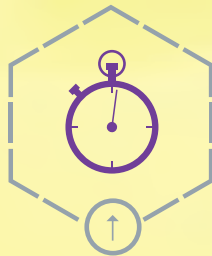


RUBBER COMPOUNDING:

Serving More Clients More Responsively



FULL-CYCLE
SERVICE



FASTER
DEVELOPMENT



FORMULATED
FOR YOU



Rubber Compounding is a **leading provider of customized rubber compounds.**

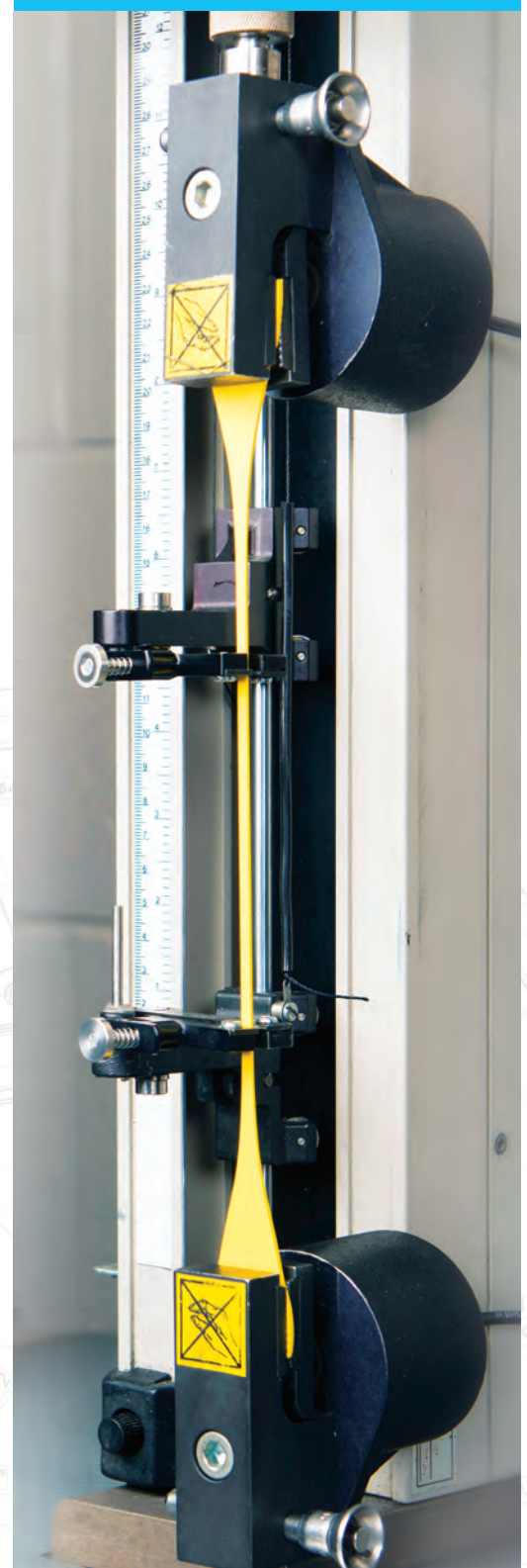
Our customers are primarily in the conveyor belting, mining, industrial, infrastructure and automotive sectors. We are also a key supplier to the tire manufacturing industry. Our equipment is state-of-the-art and highly automated, with precise controls that enable us to monitor consistency from batch to batch and steadily pull data for rapid troubleshooting and process optimization.

HOW WE COMPETE:

As the second-largest custom rubber compounder in North America, our focus is on quality, consistency and an exceptional level of service. Our customer base is growing because we are able to solve the problems of customers who need innovative polymer formulas, faster turnaround, and optimal performance in their manufacturing plants.

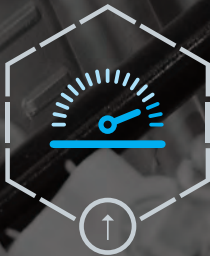
Engineered Products: ADDING VALUE TO RUBBER

Our industrial products business within Engineered Products develops, manufactures and markets high-quality rubber-based products. We custom mix, extrude and calender (multi-layered, multi-material) polymer compounds. We work with a wide range of polymers from natural rubber to chlorosulfonated polyethylene. Our products are used primarily by makers of tire and track, conveyor belts and hoses as well as in the industrial and construction sectors.



AUTOMOTIVE:

A Highly Regarded Partner to Major Automakers



PERFORMANCE
BY DESIGN



FASTER
TURNAROUND



RAPID
PROTOTYPING



Automotive is a **leading supplier of molded and rubber-to-metal bonded rubber parts, primarily for the North American automotive industry.**

Our engineers leverage our advanced molding technologies to address a wide variety of vibration and noise challenges for top automakers. Our hundreds of products are used in suspension, chassis & exhaust, powertrain & drive and steering applications.

HOW WE COMPETE:

The automotive industry is tightly geared to on-time delivery. This includes providing solutions to unforeseen manufacturing issues as they arise. With our 70 molding presses, our set-up ability is highly flexible and our scrap rates low, enabling us to create custom parts at a competitive cost.

Turnaround is rapid because we do all designing, toolmaking, prototyping, testing and manufacturing in-house. As a sister company to Rubber Compounding, we offer unrivalled materials expertise for customized applications. Our consistent quality has won numerous industry awards and accreditations.



DEFENSE:

Life-Saving Equipment on the Front Lines



PROCUREMENT
EXPERTISE



OUTSTANDING
ERGONOMICS



A TOP-FLIGHT
TRACK RECORD



Our defense business is a **world leader in designing, developing and manufacturing personal protective equipment for military and first-response personnel.**

Our products include CBRN protective gas masks, gloves, and overboots, as well as individual isolation systems, fully-integrated and scalable decontamination shelter systems, command and control/living/medical shelters, and world-class extreme cold weather footwear.

HOW WE COMPETE:

To serve the military, as we have for more than 40 years, a supplier must meet exact specifications while adhering to rigorous procurement standards. We are well-versed in global government procurement processes and project management. Science is our strength. Our in-house scientists have worked closely with the Canadian and U.S. military on new product development. Extended-wear usability is a priority.

We work continually to reduce the weight and burden of our products while improving ergonomics and comfort. Our defense products integrate seamlessly with the world's most popular CBRN suits and other military equipment. Our Canadian-based injection molding operations specialize in tight tolerance irregular shapes, difficult to inject polymers such as halo-butylys, and FDA grade silicones. Our Landover, Maryland location houses a state-of-the-art gas mask filter research and production facility.



To Our Shareholders

2016 Highlights

- Increased 2017 quarterly dividend by 7.7% to C\$0.07 per common share, marking second increase in past twelve months
- Free cash flow increased 73.3% to \$23.4 million (\$1.02 per share)
- Net debt to total capital reduced from 39.5% to 29.3%

While growth at AirBoss of America Corp. was slower in 2016, free cash flow remained strong, allowing us to improve our net debt position significantly.

Entering 2017, our balance sheet is healthy and each of our three divisions has strong growth prospects.

Rubber Compounding: More Capable, More Profitable

Improved efficiencies in our compounding business paid off in 2016. While revenue and volume (measured in pounds shipped) were down on a relative basis compared to 2015 by 27.6% and 25.9%, respectively, Rubber Compounding had its second most profitable year ever. This was due to a broader client base that increasingly relies on our business for higher-margin specialty polymers. While volume is down by more than 30% from five years ago, our earnings have almost doubled.

During 2016, we integrated the operations of our three rubber compounding facilities in Canada and the United States. We have essentially retooled the business to provide a more complete and unified offering of our compounding and transformation processes, with a single point of contact for our customers. By centralizing sales, R&D and product development, we are better able to respond to smaller-batch orders and utilize our assets more efficiently across all locations. We are also well positioned geographically to cover the majority of large rubber-based manufacturers in North America. While compounding for commodity based industries is still an important mainstay of our business, we are now able to flexibly serve a wider variety of customers while absorbing the downtime that comes with multiple recipe changes.

Automotive: Driving Sales

After two years of growth that outpaced expectations, revenues at Automotive were down moderately by 1.2% from 2015, to \$141.1 million.

Among our customers there are fewer new platform launches for the 2017 and 2018 model years. Our priority goal under the new leadership is to improve product lifecycle management so we have an appropriate mix of new programs to offset our late-stage or end-of-production programs.

We are also working to ensure Automotive becomes a more capable partner earlier in the anti-vibration/noise abatement design process. With excellent customer relations, strong engineering capabilities and the right technology footprint, we have every reason to believe Automotive will be that partner.

Defense: The Challenge of Integrating Two Strong Players

Achieving the benefits of growth by acquisition often takes longer than anticipated given the reality of blending systems and people. In July 2015, AirBoss of America Corp. acquired IRT, a Landover, Maryland-based manufacturer of filters, powered air-purifying respirators, rapidly deployable protective shelter systems and individual isolation systems. These products complement our legacy product lines of CBRN protective gas masks, gloves and overboots.

Our goal remains to grow both businesses by expanding our customer base with a greater diversity of products that would also smooth out military procurement cycles, as well as leverage IRT's filtration expertise with our new gas mask.

Post-merger results for 2016 were below expectations, for reasons both within and beyond our control. While complementary, our product lines are sufficiently different that marketing on a specialty product line basis proved inefficient, impacting the merging of sales forces in Quebec and Maryland. We have addressed these issues by adjusting marketing to a channel and customer-focused format that offers an integrated product line through a unified sales force. Beyond our control was the delay of two major contracts in 2016, including a significant design change on a previously awarded program. Unfortunately, in military procurement these are the rules of the game. While the awards are ours, the timing is not.

We entered 2017 with a significantly stronger order book compared to last year, anchored by continued delivery and option exercises on existing contracts, as well as the anticipated commencement in the second half of the year of the previously awarded program that was delayed in 2016.

Our new gas mask, which is capable of both positive and negative pressure filtration performance, is being considered for several active major tenders. Furthermore, our next generation fire-retardant glove, well into development, has attracted the interest of counter-terrorism organizations along with our traditional military customers.

OUTLOOK

We will look to continue to increase earnings while managing costs, focusing on these initiatives:

Investment in Efficiency

Our strong balance sheet and free cash flow will enable us to invest throughout 2017 in information technology and other capital expenditures to support innovation, enhance operational efficiencies and further strengthen process controls.

Measurable Data

Process controls and real-time metrics are a priority as we grow. We intend to continually improve response times, production quality and waste reduction, while making smarter, data-driven decisions.

Sales Focus

Our goal in 2017 is to further professionalize the sales forces of both Automotive and our defense business. The defense sales team will be better aligned, offering our full suite of products across geographic lines and military/first-responder distribution channels. We are encouraged by the possibility of greater defense spending in the United States and the impact this may have on global defense spending in general.

Automotive will sell more aggressively in its traditional markets while planning campaigns for the penetration of additional markets where vibration and noise solutions are needed.

Continuous Improvement

Automotive is one year into a continuous improvement program designed to increase operating efficiencies and reduce waste. We will focus on these goals across all our businesses to improve the bottom line in 2017.

Global Expansion

Our businesses are leaders in their fields and can bring value to global customers. However, like many companies, the current unpredictability of global politics has led us to pause on international expansion decisions at this time.

Capacity Utilization

Rubber Compounding has successfully expanded its client base with smaller customers that require more sophisticated/higher-margin compounds. While the business continues to grow in profitability without significant incremental capital expense, we still have excess capacity and our goal is to fill it. Indications from Rubber Compounding customers thus far in 2017 have been encouraging. Demand in the off-the-road tire and industrial sectors continues to grow. The mining and oil & gas sectors are also showing signs of improvement.

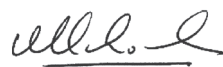
Acquisitions

We are able to finance both organic and acquisition growth due to our strong balance sheet, ongoing free cash flow generation, and our demonstrated track record of quickly reducing debt. Our goal is to drive sustainable, profitable growth from our acquisitions of IRT and Flexible Products. We are always seeking further acquisitions that improve our ability to transform rubber polymers into finished products, whether complementary to our existing business or in other rubber-intensive sectors.

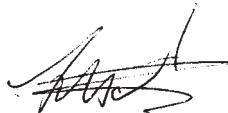
IN CLOSING

In many ways, this was a year of internal investment for AirBoss of America. We elevated our leadership capabilities, improved our infrastructure and continued to integrate our acquisitions. The coming year is about building on those investments. We have the talent and platforms to manufacture fluidly between our plants. We are offering broader product suites to larger customer bases. Sales and marketing are productively more unified.

We want to thank our shareholders and employees, financial partners and other service providers and stakeholders for their continued support.



P.G. Schoch
Chairman and CEO



Lisa Swartzman
President

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of AirBoss of America Corp. ("AirBoss" or the "Company") has been prepared as of March 16, 2017 and should be read in conjunction with the Consolidated Financial Statements and Notes for the year ended December 31, 2016 prepared in accordance with *International Financial Reporting Standards* ("IFRS"). 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 STATEMENTS

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 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.

Forward-looking statements 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 statements involve 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 those forward-looking statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements, including without limitation: impact of general economic conditions; its 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 caused by it 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 statements.

All of the forward-looking information in this Annual Report is expressly qualified by these cautionary statements. Investors are cautioned not to put undue reliance on forward-looking statements. All subsequent written and oral forward-looking statements 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 Annual Report and, whether as a result of new information, future events or otherwise, AirBoss disclaims any intent or obligation to update publicly these forward-looking statements except as required by applicable laws. Risks and uncertainties about AirBoss' business are more fully discussed under the heading "Risk Factors" and 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.

OVERALL PERFORMANCE

Fourth Quarter and Full Year Highlights**(In thousands of US dollars)**

- Increased quarterly dividend by 7.7% to C\$0.07
- Free cash flows increased 79.2% to \$9,150 (\$0.40 per share) for the quarter
- Annual free cash flow increased 73.3% to \$23,425 (\$1.02 per share)
- Net debt to total capital reduced from 39.5% to 29.3% over the past twelve months

Selected Financial Information

*In thousands of US dollars, except share amounts outstanding,
per share amounts in US dollars*

Years ended December 31	2016	2015	2014
Financial results:			
Net sales	267,628	304,909	303,151
Net income	13,822	13,282	13,725
Net income per share			
– Basic	0.60	0.58	0.60
– Diluted	0.59	0.56	0.60
Adjusted EPS ¹			
– Basic	0.63	0.79	0.70
– Diluted	0.62	0.77	0.69
EBITDA ¹	29,645	29,949	28,948
Adjusted EBITDA ¹	30,532	36,133	31,873
Net cash from operating activities	29,740	22,961	15,545
Dividends declared per share	0.255	0.24	0.20
Capital expenditures	6,402	10,031	6,832
Financial position:			
Total assets	225,118	217,739	188,906
Term loan and other debt	73,206	76,922	50,948
Shareholders' equity	109,283	99,534	90,035
Outstanding shares	23,074,183	23,021,850	22,998,760
<i>*23,074,183 at March 16, 2017</i>			

MD&A (cont'd)

¹Non-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
Adjusted EBITDA	Earnings before interest income, interest expense, income taxes, depreciation and amortization, and share-based compensation expenses
Free cash flows	Net cash provided by operating activities, less capital expenditures for the period

EBITDA, Adjusted EBITDA and Adjusted EPS are non-IFRS financial measures directly derived from the consolidated financial statements but do not have a standardized meaning prescribed by IFRS and are not necessarily comparable to a similar measure presented by other issuers.

The Company discloses EBITDA and free cash flows, financial measurements 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. Neither measure should be considered as an alternative to, or more meaningful than net income (or any other IFRS financial measure) as an indicator of the Company's performance. Because EBITDA excludes some, but not all, items that affect net income, the EBITDA and Adjusted EBITDA presented by the Company may not be comparable to similarly titled measures of other companies.

A reconciliation of net income to EBITDA and Adjusted EBITDA is presented below:

<i>In thousands of US dollars</i>	2016	2015
Net Income	13,822	13,282
Finance costs	2,830	2,296
Depreciation and amortization of intangible assets	10,343	9,595
Income tax expense	2,650	4,776
EBITDA	29,645	29,949
Add back:		
Share-based compensation attributed to changes in share price	887	6,184
Adjusted EBITDA	30,532	36,133

RESULTS OF OPERATIONS – For years ended December 31, 2016 compared to 2015

NET SALES

Consolidated net sales for the year ended December 31, 2016 decreased 12.2% to \$267,628 and were down across all business segments compared to 2015. The decrease in Rubber Compounding was due to a drop in volume and raw material prices, where savings are passed through to customers. Sales within Engineered Products were down due to a decrease in the defense business while the industrial business achieved close to double digit growth over the prior year. In the Automotive segment, the decline in net sales was largely due to the completion of a large production program in muffler hangers in the second half of the year.

<i>In thousands of US dollars</i>		Rubber Compounding	Engineered Products	Automotive	Total
Net Sales	2016	79,954	46,572	141,102	267,628
	2015	110,476	51,562	142,871	304,909
(Decrease) \$		(30,522)	(4,990)	(1,769)	(37,281)
(Decrease) %		(27.6)	(9.7)	(1.2)	(12.2)

Rubber Compounding

Net sales for the year ended December 31, 2016 decreased 27.6% to \$79,954, from \$110,476 in the same period in 2015. The drop in net sales was partly due to an 11.8% decline in raw material prices, where savings are passed on to customers. In addition, volume (measured in pounds shipped) decreased 25.9% compared to last year. The decrease was due to softness in demand in the conveyor belt, chemical and mining sectors, which were partly offset by increases in the off the road ("OTR") and defense sectors.

Tolling volumes for the year ended December 31, 2016 decreased 48.1% compared to 2015. The decrease was in the conventional tolling applications and was partly offset by an increase in niche tolling. Tolling rates, on the other hand, increased 32.1% over 2015.

Engineered Products

Net sales in the Engineered Products segment for the year ended December 31, 2016 decreased 9.7% to \$46,572, compared to the same period last year. The Engineered Product segment is comprised of the industrial products and defense businesses. Net sales reflect the repositioning of fireboots from the industrial business to the defense business in 2016.

Net sales in the industrial business increased \$1,940, which was more than offset by a decrease in the defense business of \$6,930. The increase in the industrial business was principally in the track sector. The decrease in the defense business was largely due to a drop in sales activity following the completion of a 2015 contract in the boot product line which was only partially offset by improved net sales in the glove, mask and shelter product lines. In addition, two major contract delays in 2016 resulting from customer specification changes delayed the delivery of these contracts, which are now expected to ship in the second half of 2017.

RESULTS OF OPERATIONS – For years ended December 31, 2016 compared to 2015**Automotive**

For the year ended December 31, 2016, net sales for the Automotive segment decreased moderately by 1.2% from 2015, to \$141,102. The decrease was primarily in the muffler hangar product line as a result of the end of production under a large program in the second half of the fiscal year. Management is actively seeking to minimize the impact between the completion of sizable production programs and the commencement on newer programs and is seeking additional opportunities in the market place. The decrease in the muffler hangar product line was partially offset by increased net sales in induction bonding, which grew by 12.5%, and dampers and bushings where growth was reflective of the increased demand in the light truck sector.

GROSS PROFIT

For the year ended December 31, 2016, consolidated gross profit was \$46,596 (17.4% of net sales) compared to \$55,334 (18.1% of net sales) in 2015. The decrease in gross profit was due to lower sales across the three business segments, which more than offset the successful operational efficiency and expense control initiatives across the Company.

<i>In thousands of US dollars</i>		Rubber Compounding	Engineered Products	Automotive	Total
Gross Profit	2016	17,716	8,622	20,258	46,596
	2015	22,261	10,353	22,720	55,334
(Decrease) \$		(4,545)	(1,731)	(2,462)	(8,738)
% net of sales	2016	22.2	18.5	14.4	17.4
	2015	20.2	20.1	15.9	18.1

Rubber Compounding

For the year ended December 31, 2016, gross profit for Rubber Compounding decreased \$4,545 to \$17,716 (22.2% of sales) from \$22,261 (20.2% of sales) for the comparable period in 2015. The decrease was largely due to the drop in net sales for the reasons discussed above and partly offset by cost reduction initiatives, including productivity improvements and better control over raw material purchases.

Engineered Products

Gross profit for the year ended December 31, 2016 in the Engineered Products segment decreased \$1,731 to \$8,622 (18.5% of sales) compared to \$10,353 (20.1% of sales) in 2015. The drop is reflective of the decrease in net sales described above as well as the change in product mix. In addition, the first half of the fiscal year was marked by labour inefficiencies related to production transferred in 2015 to Acton Vale, Quebec from Vermont which further dampened margins. Management has taken initiatives in 2016 to improve these inefficiencies and, as expected, improvements in the second half of the fiscal year were achieved. The Company has also begun further cost reduction efforts in both the industrial products and defense business which are expected to carry through 2017.

Automotive

Gross profit for the year ended December 31, 2016 was \$20,258 (14.4% of net sales) compared to \$22,720 (15.9% of net sales) in 2015. The decrease was principally due to lower volumes and product mix.

OPERATING EXPENSES

Consolidated operating expenses for the year ended December 31, 2016 decreased \$7,686, to \$27,294, compared to the same period in 2015. The decrease was principally due to one-time expenses in 2015 related to share-based compensation expenses (\$5,297), restructuring costs associated with the acquisition of Immediate Response Technologies, LLC ("IRT") (\$1,304), and expenses associated with the closure of the Vermont plant (\$1,134).

As a percentage of net sales, operating expenses for the year ended December 31, 2016 decreased to 10.2% from 11.5% in 2015.

<i>In thousands of US dollars</i>		Rubber Compounding	Engineered Products	Automotive	Unallocated Corporate Costs	Total
Operating Expenses	2016	5,896	10,228	8,385	2,785	27,294
	2015	7,424	10,818	8,379	8,359	34,980
Increase (decrease) \$		(1,528)	(590)	6	(5,574)	(7,686)
% net of sales	2016	7.4	22.0	5.9	N/A	10.2
	2015	6.7	21.0	5.9	N/A	11.5

Rubber Compounding

Rubber Compounding's operating expenses for the year ended December 31, 2016 were down 20.6% to \$5,896 compared to \$7,424 in 2015. The decrease was principally due to lower administrative costs and a specific provision of \$431 for doubtful accounts taken in 2015. There were no such provisions required to be taken in 2016.

Engineered Products

Operating expenses for the year ended December 31, 2016 in Engineered Products decreased \$590 compared to the same period last year. The decrease was largely due to certain one-time costs incurred in 2015, of which \$1,304 related to acquisition costs for the purchase of IRT and \$1,134 related to restructuring expenses associated with the closure of the Vermont plant, as well as certain rightsizing initiatives further contributed to the decrease. These decreases were partly offset by a full year of operating expenses for IRT in 2016 compared to six months in 2015.

Automotive

Operating expenses for the year ended December 31, 2016 were relatively flat at \$8,385 compared to \$8,379 in 2015. Higher recruitment and administration costs were partly offset by lower bad debt expenses as a result of improvements in collections.

AirBoss of America Corp.

MD&A (cont'd)

RESULTS OF OPERATIONS – For years ended December 31, 2016 compared to 2015

Unallocated Corporate Costs

Unallocated corporate costs decreased by \$5,574 from 2015, primarily as a result of lower share-based compensation expense of \$5,297.

FINANCE COST

<i>In thousands of US dollars</i>		Rubber Compounding	Engineered Products	Automotive	Unallocated Corporate Costs	Total
Finance cost	2016	4,727	15	-	(1,912)	2,830
	2015	3,582	14	10	(1,310)	2,296
Increase (decrease) \$		1,145	1	(10)	(602)	534
% of net sales	2016	5.9	0.0	-	N/A	1.1
	2015	3.2	0.0	0.0	N/A	0.8

Finance costs in 2016 were \$2,830 (2015: \$2,296). The increase in expense was primarily due to the timing of increased borrowing levels as a result of the IRT acquisition.

INCOME TAX EXPENSE

The Company recorded an income tax expense of \$2,650 (2015: \$4,776) or an effective income tax rate of 16.09% (25.92% in 2015). The statutory rate in Canada in 2016 was 26.5%.

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.

<i>In thousands of US dollars</i>		Tax expense		Rate	
	2016	2015	2016	2015	
Expected AirBoss of America Corp. statutory rate	4,365	4,765	26.50%	25.00%	
Foreign rate differential	69	607	0.42%	3.28%	
Effect of permanent differences	(1,542)	(582)	(9.36%)	(3.14%)	
Filing differences	(256)	42	(1.55%)	0.23%	
Other	14	(56)	0.08%	0.55%	
Actual tax	2,650	4,776	16.09%	25.92%	

NET INCOME AND EARNINGS PER SHARE

Net income in 2016 amounted to \$13,822, compared to \$13,282 in 2015. The basic and fully diluted net earnings per share were \$0.60 (2015: \$0.58) and \$0.59 (2015: \$0.56) based on basic and fully diluted shares outstanding of 23,061,534 (2015: 23,019,130) and 23,555,978 (2015: 23,544,976), respectively. The increase is primarily attributable to lower restructuring costs, acquisition expenses, share-based compensation and tax expense, partly offset by lower gross margin and higher financing costs.

QUARTERLY INFORMATION

<i>In thousands of US dollars</i>			Net Income per share	
Quarter Ended	Net Sales	Net Income	Basic	Diluted
2016				
December 31, 2016	63,040	1,401	0.06	0.06
September 30, 2016	66,666	3,115	0.13	0.13
June 30, 2016	67,455	4,965	0.22	0.21
March 30, 2016	70,467	4,341	0.19	0.19
2015				
December 31, 2015	73,576	3,688	0.16	0.16
September 30, 2015	77,513	4,036	0.18	0.17
June 30, 2015	76,964	2,378	0.10	0.10
March 30, 2015	76,856	3,180	0.14	0.14

Items impacting comparability of quarters

- 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.
- The third quarter of 2016 was impacted by \$34 of restructuring costs.
- The second quarter of 2016 was impacted by \$121 of restructuring costs.
- The first quarter of 2016 was impacted by \$94 of restructuring costs.

Fourth Quarter 2016 Results

In the fourth quarter of 2016, the company continued to face similar pressure on net sales as experienced in the first three quarters:

NET SALES

Consolidated net sales in the fourth quarter of 2016 decreased by 14.3% to \$63,040 from \$73,576 last year and were down in all segments.

MD&A (cont'd)

Rubber Compounding

Net sales for Rubber Compounding for the quarter declined 20.2% to \$18,518 from \$23,202 in the same period last year. The decrease in net sales was partly due to a 4.9% decline in raw material prices, where the savings were passed onto the customers. Volume (measured in pounds shipped) also contributed to the decrease and was down 26.2%. The decrease was primarily in the conveyor belt and conventional tolling, as well as with our chemical distribution business, with some improvements in OTR, mining and industrial sectors.

Tolling volumes for the quarter dropped 62.3% compared to last year.

Engineered Products

Engineered Products 2016 fourth quarter net sales decreased by 17.9% to \$11,900 compared to last year. A \$3,409 decrease in net sales for the defense business was partially offset by an \$816 increase in the industrial business. The decrease in the defense business was principally due to the overboots product line following completion in 2015 of a major contract. In addition, net sales were down in Power Air Purifying Respirators ("PAPR"), which was partially offset by increases in the glove and mask product lines. The increase in the industrial business was mainly due to higher sales in the track sector.

Automotive

For the three month period ended December 31, 2016, net sales in the Automotive segment decreased 9.1% to \$32,622 from \$35,881 in 2015, due to softness in the majority of its product lines.

GROSS PROFIT

Consolidated gross profit in the fourth quarter of 2016 decreased to \$8,881 (14.1% of net sales) from \$13,337 (18.1% of net sales) compared to the same period in 2015 as a result of lower net sales and an inventory adjustment in the Automotive segment.

Rubber Compounding

For the three months ended December 31, 2016, gross profit at Rubber Compounding was \$3,734 (20.2% of net sales) compared to \$5,482 (23.6% of net sales) in 2015. The decrease was due to the drop in net sales described above.

Engineered Products

Gross profit for the quarter at Engineered Products was down \$819 to \$2,031 (17.1% of net sales) compared to \$2,850 (19.7% of net sales) in 2015. The decrease was mainly due to the drop in net sales in the defense business which was partially offset by increased sales in the industrial business and efficiency improvements related to absorption of production activities into Acton Vale, Quebec as a result of the closure of the Vermont plant in 2015.

Automotive

Gross profit for the three month period ended December 31, 2016 decreased \$1,889 to \$3,116 (9.6% of net sales) compared to \$5,005 (13.9% of net sales) for the comparable period in 2015. The decrease was mainly attributable to lower volumes and product mix.

OPERATING EXPENSES

Consolidated operating expenses decreased by \$83 compared to the fourth quarter in 2015. This was primarily due to \$383 of lower restructuring costs incurred by Engineered Products in 2015 that didn't reoccur in 2016, and partially offset by higher research and development costs net of tax credits of \$122 and higher foreign exchange losses of \$191.

INCOME TAX EXPENSE

Tax expense decreased by \$1,915 as a result of lower income before tax and as a result of having used all tax losses in the US allowing the Company to be eligible for a reduced rate as a manufacturer in the US.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its 2017 operating cash requirements, including required working capital investments, capital expenditures and scheduled debt repayments from cash on hand, cash flow from operations and committed borrowing capacity. The Company's operating revolving loan facility provides financing up to \$60,000 (2015: \$60,000). No amount was drawn against this facility at December 31, 2016.

For the period ended December 31, 2016, \$29,740 of cash was provided by operations, (2015: \$22,961), \$5,614 (2015: \$46,583) was used for investing activities and \$8,091 (2015: \$22,468 provided by) was used in financing activities. Cash and cash equivalents increased by \$16,010 from \$11,961 to \$27,971 adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

The factors contributing to the changes in cash from operating activities compared to 2015 include:

- higher profit for the year of \$540 primarily related to lower share-based compensation expense, restructuring costs, and acquisition expenses; and
- cash provided by working capital was \$3,350 (2015: \$1,646 used for) for the period ended December 31, 2016.

Accounts receivable increased by \$242. 76% of outstanding receivables are within credit terms, which is consistent with December 31, 2015 balances.

Inventory at Rubber Compounding has decreased by \$1,962 due to timing of purchase deliveries and lower raw materials costs. Inventory at Automotive decreased \$2,219 reflecting the inventory adjustment and management's focus on inventory management initiatives and increased at Engineered Products by \$356.

Prepaid expenses increased \$923 reflecting higher prepaid inventory at Rubber Compounding and higher prepaid expenses at Automotive compared to the prior year.

Accounts payable increased \$693 due to timing of payments.

Income tax paid was \$1,775, \$1,251 lower than taxes paid in 2015.

The Company paid interest of \$2,334 in 2016 (2015: \$1,733).

AirBoss of America Corp.

MD&A (cont'd)

Investing Activities

Acquisition of subsidiary

On July 24, 2015, the Company, through its wholly-owned subsidiary AirBoss-Defense Inc., acquired all of the membership interests of IRT for \$35,849 financed with new term debt under its existing credit facilities.

Property, Plant and Equipment

In 2016, Rubber Compounding invested \$252 in North Carolina's equipment for utilization improvement projects and \$16 on mixer replacement efforts to support growth. In Kitchener, \$284 was invested in operational efficiencies, and \$2,384 to replace capital and manufacturing equipment.

Engineered Products invested \$1,511 in property, plant and equipment. Of this, \$509 was invested in growth support initiatives, \$73 on cost savings efforts, \$753 to replace industrial machinery and equipment, and \$176 mainly to support health and safety and product research. In 2016, Engineered Products' capital investment was offset by a reduction in capital assets of \$1,272 in respect of provincial tax credits.

Automotive invested \$1,074 to purchase machinery and equipment for growth initiatives, \$364 to replace existing machinery and upgrade system requirements, \$205 mainly to support cost saving and environmental initiatives, and \$221 mainly to support health and safety.

Corporate invested \$6 in sustaining capital.

Intangible assets

The Company invested \$87 in software to support customer requirements, management, costing maintenance and ancillary systems.

Financing activities

During 2015, the Company amended its senior secured credit facilities to, among other things, increase the availability to approximately \$138,000, extend the maturity of the facilities and increase flexibility under the governing credit agreement to support future growth opportunities.

The Company's current credit facilities is comprised of a \$60,000 revolving facility, a term loan of \$75,000 (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 C\$5,000 and an accordion feature of up to an additional \$50,000 of availability, upon the satisfaction of customary conditions for such features. The maturity dates of the revolving credit facility and the US\$ term loan were extended from October 2018 to December 2020, while the maturity date of the C\$ term loan remains at October 2018.

Deferred financing fees, less accumulated amortization have been deducted against the term loan for presentation purposes.

In 2015, deferred financing fees of \$247 relating to the \$38,000 term debt loan to acquire IRT were incurred. Deferred financing fees of \$958, in regards to the amended agreement (dated December 10, 2015) were incurred. Deferred financing fees of \$282, which includes a write-down of \$148 in regards to the original credit agreement (dated October 2013) were expensed.

The fees are being amortized over 5 years and \$265 (2015: \$15) has been amortized and is included in finance costs.

Interest expense in 2016 on the term loans was \$2,239 (2015: \$1,575).

Commitments and contractual obligations

The Company's contractual obligations as at December 31, 2016 are summarized below:

	2017	2018	Payments Due In		2021	Thereafter	Total
			2019	2020			
Term loan and other debt	4,009	8,356	5,625	56,250	-	-	74,240
Operating leases - equipment	127	67	24	8	-	-	226
Operating leases - premises	1,602	1,602	1,360	432	396	-	5,392
Purchase obligations	718	-	-	-	-	-	718
Total	6,456	10,025	7,009	56,690	396	-	80,576

The Company has inventory purchase commitments at the end of 2016 for its Engineered Products and Rubber Compounding business segments of \$718 and \$nil (2015: \$3,059 and \$735) respectively. The Automotive segment had no inventory purchase commitments at the end of 2016 and 2015.

Government assistance

During 2016, Rubber Compounding recognized grants of \$60 (2015: \$19); Engineered Products recognized grants of \$70 (2015: \$498); and Automotive recognized grants of \$13 (2015: \$nil) to support certain initiatives which were offset against expenses.

Scientific research and investment tax credits of \$617 (2015: \$489) were recognized in 2016; research and development costs were reduced accordingly. In addition, \$1,272 (2015: \$213) was recognized as a reduction to capital assets in respect of provincial tax credits.

Dividends

A quarterly dividend of \$0.065 per share was declared on November 14, 2016 and paid on January 12, 2017. Total dividends declared during 2016 were \$0.255 per common share compared to \$0.24 per common share in 2015.

Outstanding shares

As at March 16, 2017 the Company had 23,074,183 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 CEO and Chairman of the Company. The monthly lease rate approximates fair market rental value. During the year, the Company paid rent for the corporate office of \$136 (2015: \$143).

During the year, the Company paid fees for the use of a facility in South Carolina of approximately \$21 (2015: \$22) to a company in which the CEO and Chairman is an officer.

In addition, during the year, Flexible paid rent of \$1,170 to a company controlled by the former President of Automotive for its office and manufacturing facilities (2015: \$1,115). The lease provides for monthly payments equivalent to an annual rental of \$1,170 and expires in 2019.

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management includes directors (executive and non-executive), CEO, President, CFO and divisional presidents. The compensation expense to key management for employee services is shown below:

December 31 <i>In thousands of US dollars</i>	2016	2015
Salaries and other short term benefits	2,217	2,211
Pension/Post-employment benefits	45	43
Share-based payment expense	775	5,402
	3,037	7,656

The amounts disclosed in this table are the amounts recognized as operating expenses for accounting purposes during the period and do not necessarily represent amounts receivable or received in cash.

Key management and directors own 25.6% of the outstanding common shares.

In April 2014, the Company invested \$550 in the form of a convertible promissory note in a company of which the Deputy Chairman of the Company is the chairman. This note can be converted to an equity interest under the following conditions: (1) if the company has completed "qualified financing" raising \$1 million in gross proceeds (excluding the Company's loan); (2) if no "qualified financing" takes place prior to the maturity date, the Company has the option to convert into common stock within 60 days prior to the maturity date of the note. In 2016, the Company agreed to amend the terms of the promissory note to increase the interest rate of the loan to 15% per annum and extend the maturity date to April 11, 2017, at which time the principal and accrued interest on the note will be due and payable unless the note is converted or the loan is prepaid at an earlier date.

The convertible promissory note is accounted for as a loan receivable with separation of the conversion options that represent embedded derivatives. The loan is initially recognized at its fair value by discounting future cash flows at market interest rate for similar financial debt without the conversion options and is subsequently measured at amortized cost. The embedded derivatives are accounted for at fair value, which is currently considered nominal.

During 2016, a full provision was recorded against the convertible promissory note and any accrued interest. No interest was recorded on the statement of income for 2016 and 2015.

During 2014, the Company provided share purchase loans of CAD \$1,000 each to both the President and former Chief Financial Officer to purchase common shares of the Company. The share purchase loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or November 24, 2019. During the second quarter of 2016, the outstanding share purchase loan of \$764 (CAD \$1,000) was repaid in full by the former Chief Financial Officer. During the fourth quarter of 2016, the Company provided share purchase loans of CAD \$250 each (in aggregate \$372) to the new Chief Financial Officer and Senior Executive Vice President, Corporate. These loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or December 20, 2021. All share purchase loans bear interest at 1% annually with full recourse and interest is due and payable semi-annually. In total, 143,000 shares of the Company having a fair value of \$1,262 were pledged as collateral on these three loans. At December 31, 2016, the promissory notes of \$1,119, including accrued interest of \$12, were included in other assets. During the year, interest of \$12 (2015 \$16) was paid.

NEW STANDARDS AND INTERPRETATIONS ADOPTED AND NOT YET ADOPTED

ADOPTED

On December 18, 2014 the IASB issued amendments to IAS 1 "Presentation of Financial Statements" ("IAS 1") as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). Effective January 1, 2016, the Company adopted the IASB issued amendments to IAS 1 "Presentation of Financial Statements." The adoption of these amendments had no significant impact on the financial statements.

NOT YET ADOPTED

In July 2014 the IASB finalized IFRS 9, "Financial Instruments" ("IFRS 9"). The new standard includes revised guidance on the classification and measurement of financial assets and liabilities, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of the new standard on its consolidated financial statements and does not expect the adoption of this standard to have a material impact on the financial statements.

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"). The new standard provides a comprehensive framework for recognition, measurement and disclosure of net sales from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

On January 13, 2016 the IASB issued IFRS 16 "Leases". This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. These amendments will not require any significant change to current practice, but should facilitate improved financial statements disclosures. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. The Company is currently assessing the impact of these amendments on its consolidated financial statements.

MD&A (cont'd)

CRITICAL ACCOUNTING ESTIMATES

The Company's preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The Company's estimates are based upon historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of the Company's ongoing evaluation of these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amounts for revenues and expenses. Actual results may differ from these estimates under different assumptions. These estimates and assumptions are affected by management's application of accounting policies.

The Company's critical accounting policies are those that affect our Consolidated Financial Statements materially and involve a significant level of judgment by the Company. A summary of the significant accounting policies, including critical accounting policies, is set forth in Note 3 to the Consolidated Financial Statements. The Company's critical accounting estimates include valuation of accounts receivable and inventory, valuation of goodwill and other long-lived assets, accounting for income taxes, and government assistance.

Valuation of Accounts receivable

There were no significant provisions for accounts receivable recognized in 2016.

Valuation of inventory

The majority of the Company's products are manufactured against orders and inventory on hand is primarily raw materials or finished goods awaiting shipment or customer release.

A provision for obsolete inventory is established based on materials on hand that can no longer be used for customer orders based on a review of historical and forecasted sales, as well as a technical review to see if such materials can be reworked.

Management reviews the carrying cost of its inventory to ensure it is measured at the lower of cost and net realizable value by examining current replacement cost and the quoted pricing to customers over the estimated time frame to consume the inventory on hand and irrevocable commitments.

The Company's provision for obsolete inventory and the write-down of inventory to net realizable value may require an adjustment should any of the above factors change.

At December 31, 2016, a reserve for impaired inventory in Rubber Compounding represents \$493 (2015: \$506). Engineered Products maintains a provision of \$513 (2015: \$482) related to certain styles and sizes of protective wear. Automotive recognized \$180 (2015: \$144) as a reserve for impaired inventory.

Valuation of Goodwill

The Company reviews and evaluates goodwill for impairment when an indicator of impairment exists in the associated cash generating units, but at least on an annual basis. In determining whether impairment has occurred in one of the Company's cash generating units, management compares the cash generating unit's carrying value to its recoverable amount based on value in use. Value in use was determined by the future cash flows generated from the continuing use of the unit. The calculations are most sensitive to the discount rate and growth rate. Determination of growth rate is based on a number of assumptions arising from the most current financial performance of each cash generating unit, the upcoming annual budget for each reporting unit and the historical variability of earnings. Other factors, such as any foreign exchange volatility and volatility in world markets for rubber and carbon black can also materially alter our expectations. Accordingly, management's judgment is required to determine whether these factors at any one point in time and in light of business initiatives, suggest a major change, positive or negative, to the prospects of the business and, therefore, to the valuation of goodwill. No impairment charge was required in 2016 or 2015.

Other Long-lived Assets

The Company reviews and evaluates long-lived assets for impairment when events or changes in economic and other circumstances indicate that the carrying value of such assets may not be fully recoverable. The net recoverable value of an asset, or cash generating unit, is calculated as the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. Future net cash flows are developed using assumptions that reflect the planned course of action for an asset given management's best estimate of the most probable set of economic conditions. Inherent in these assumptions are significant risks and uncertainties. In the view of management, there are no indicators of impairment based on assumptions which they believe to be reasonable and no impairment charge was recorded in 2016 and 2015.

Accounting for Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the Consolidated Financial Statements. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and future tax liabilities and assets for the future tax consequences of events that have been recognized in the Consolidated Financial Statements or tax returns. In determining both the current and deferred components of income taxes, the Company interprets tax legislation in a variety of jurisdictions, as well as makes assumptions about the expected timing of the reversal of deferred tax assets and liabilities and recognition of deferred tax assets is based on a probable criteria. If its interpretations differ from those of tax authorities or if the timing of reversals is not as anticipated, the provision or relief for income taxes could increase or decrease in future periods. Additional information regarding our accounting for income taxes is contained in Note 15 to the Consolidated Financial Statements. Deferred tax assets have been recorded relating to loss carry-forward amounts as management believes it is more likely than not that these will be used before expiration.

Government Assistance

Management evaluates its best estimates of the amount of government grants recoverable at each reporting date as an offset against the related expense or capital expenditure, under the terms of agreements or based on its interpretation of existing government programs. If its interpretations differ from those of the relevant tax authorities or program administrators, the amount recoverable may increase or decrease in future periods.

FINANCIAL INSTRUMENTS

Foreign exchange hedge

At December 31, 2016, the Company had contracts to sell US \$8,937 in 2017 for CAD \$12,000. The fair value of these contracts, representing a loss of \$58 was recorded in 2016 on the statement of financial position included in trade and other payables, including derivatives and changes in fair value recorded on the statement of income as expense. There were no forward contracts outstanding at December 31, 2015.

Interest rate swap

During 2015, the Company entered into an interest rate swap agreement for a notional amount of \$22.5 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 0.98%. The swap agreement matures on February 27, 2017.

During 2016, the net interest expense of the swap agreement was \$125 and \$125 was paid (2015: \$180 and \$196 was paid).

For the year ended December 31, 2016, the fair value of this agreement, representing a loss of \$11, (2015: loss of \$73) is recorded on the statement of financial position included in loans and borrowings and changes in fair value are recorded on the statement of income as finance costs.

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 it does not intend to hold for trading or speculation purposes.

RISK FACTORS

Impact of Economic Cycle

The demand for the Company's products can vary in accordance with general economic cycles and the economic conditions of the industry sectors that are served by the Company. In addition, a number of such industry sectors are cyclical in nature. The Company is particularly sensitive to trends in the automotive, tire, energy generation, construction, mining and transportation industries because these industries are significant markets for the Company's business and are highly cyclical. In a severe economic slowdown, prices for coal, copper and other mined materials may fall, affecting demand for conveyor belting, off-road retread tires and other rubber products manufactured by our customers from rubber compounds manufactured by the Rubber Compounding segment. The global automotive industry is also cyclical, with the potential for regional differences in timing of expansion and contraction. A significant decline in automobile production volumes for the North American market from current levels could have a material adverse effect on the profitability of our Automotive segment. In the defense business line of Engineered Products, the timing and size of orders from government defense departments worldwide is highly dependent on the political climate in the applicable jurisdiction, the broader geopolitical climate and their impact on defense budgeting and spending.

Political Uncertainty and Policy Change

Certain of the business sectors in which we and our customers operate, particularly in the automotive and defense businesses, are highly globalized industries. Election of protectionist governments or implementation of protectionist trade policies could negatively impact the movement of goods, services and people across borders, including within North America. Uncertainty created by rapidly changing political circumstances may impact our ability to plan effectively for our businesses over the short- and medium-terms, until such time as policy changes or new laws, if any, are implemented. For example, such uncertainty may affect plans relating to establishing operations in new locations (directly or through joint ventures) or potential acquisitions. A material variation between our planning assumptions and actual outcomes could have a material adverse effect on our profitability and financial condition.

Dependence on Key Customers and Contracts

From time to time, a significant portion of the Company's sales for a given period may be represented by a relatively small number of customers. Net sales from one customer represent approximately 9% (2015: 8%) of the Group's total net sales in 2016. Five customers represented 31% (2015: 32%) of the Company's total net sales in 2016. While the Company continues to work on diversification of its customer base in all segments, there is no assurance of continued success and shifts in market share away from these top customers could adversely impact our profitability.

Raw Materials and Inventory

The Company depends on various outside sources of supply for raw materials used in the production of its products, the price and availability of which are subject to market conditions. As a result, any shortage of such raw materials could potentially delay delivery of our products, increase our costs and decrease profitability. The Company maintains multiple supply sources in different areas of the world to mitigate the risk of shortages or price increases experienced in certain, but not all, markets. However, there can be no assurance that such multiple supply sources can be maintained in the future and multiple sources cannot overcome a global shortage in a particular raw material, should one occur.

Historically, raw material markets have been extremely volatile with key materials doubling or halving in price within a relatively short period, and the Company does not expect such volatility to cease. Excess inventory or shortages of raw material could prove costly to the Company in these markets.

The Company does not have long-term supply contracts with its suppliers and purchases most raw materials on a purchase order basis. The price of many raw materials, such as, natural rubber, carbon black and synthetic rubber, ethylene propylene diene monomer ("EPDM") and silicone is directly or indirectly affected by factors such as exchange rates and the price of oil and, in the case of natural rubber, weather conditions that impact harvest seasons. Although the Company attempts to pass price changes in raw materials on to its customers, it may not always be able to adjust its prices, especially in the short-term, to recover the costs of increased raw material prices. Conversely, if raw material prices decrease significantly and rapidly, the Company may be at risk to recover the cost of any inventory purchased based on demand at higher prices.

The following table approximates the financial impact (assuming changes are not passed along to its customers) on the Company of a 10% increase in the cost of its most critical raw materials based upon purchases made in the respective years:

\$Millions	Earnings before tax	
	2016	2015
Natural and synthetic rubber	(1.60)	(2.06)
Carbon black	(0.72)	(1.24)
EPDM	(0.58)	(0.68)
Silicone	(0.90)	(1.02)
	(3.80)	(5.00)

MD&A (cont'd)

Weather

The Company uses natural rubber in the manufacture of certain rubber products. Weather conditions impact the harvesting season and supply of natural rubber.

Certain products are acquired overseas by ocean freight. Weather conditions can impact timely delivery.

Competition and Price Pressure

The Company competes directly against major North American and international companies in the custom rubber compounding, automotive and industrial rubber product market segments. Some of these companies have strong established competitive positions in these markets and may be sheltered by domestic tariffs. In the case of rubber compounding, the industry leader may have greater resources, both financial and technical, than the Company and has long-standing relationships with some of the Company's prospective customers using well-established marketing and distribution networks. Furthermore, customers of several industry sectors are price sensitive and thus, certain of the more commodity-like products in our businesses can be affected by severe price pressure, which in turn could adversely impact our profitability in those areas.

Contract-related Risks

Contracts from many of our customers, particularly in Rubber Compounding and Automotive, consist of individual purchase orders or blanket orders under umbrella supply agreements. In these cases, there is no obligation on any customer to continue to issue individual purchase orders and most umbrella supply agreements do not impose minimum purchase requirements and also permit the customer to terminate blanket orders at any time. The termination of blanket orders could result in the Company incurring various pre-production, engineering and other costs that we may not recover from our customer and which could have an adverse impact on our profitability. In addition, it is difficult to predict accurately when opportunities to win contract awards for defense products from Canadian, United States or other foreign governments will arise and how long the contract tender to award and subsequent commencement of production process will take. A prolonged tender process without a corresponding award could also result in the Company incurring various pre-production, engineering and other costs that we may not recover and which could have an adverse impact on our profitability.

Currency Exposure

The Company has revenues and expenses denominated in both Canadian ("CAD") and US ("USD") dollars. In addition, the cost to the Company of certain key raw materials and other expense items and the competitiveness of prices charged by the Company for its products will be indirectly affected by currency fluctuations. Changes in the value of the Canadian dollar relative to the US dollar could have a material positive or adverse effect on the Company's results of operations.

The Company reviews its currency exposure positions from time to time and reacts accordingly by increasing or decreasing the proportion of operating or term loan denominated in CAD funds as a natural balance sheet hedge or establishing forward contracts to purchase CAD funds to manage its foreign exchange risk related to cash-flow. However, there is no assurance that such strategies will be successful or cost effective and the profitability of the Company's business could be adversely affected by currency fluctuations. The following table approximates the following impact on the Company of a \$0.10 decrease in the value of one CAD dollar in the Company's USD functional currency (million):

\$Millions	Earnings before tax	
	2016	2015
Sales (1)	(2.8)	(2.5)
Purchases (2)	4.4	6.3

(1) Based upon Canadian dollar-denominated sales in 2016.

(2) Based upon combined 2016 Canadian purchases and expenses.

Health, Safety and the Environmental

The Company's operations are subject to extensive health, safety and environmental (HSE) regulations by federal, provincial, state and local authorities. The Company employs individuals who undertake manufacturing activity and handle various substances in its manufacturing process, the nature of which may expose the Company to risks of causing or being deemed to have caused injury or environmental or other damages. The Company regularly assesses its policies and procedures relating to workplace safety in its production facilities. While its use of potentially hazardous materials is limited, the Company ensures that its operations are conducted in a manner that minimizes such risks and maintains insurance coverage considered reasonable by management. To date, no regulatory authority has required the Company to pay any material fines or remediation expenses in connection with any alleged violation of HSE regulation. However, there can be no assurance that future personal injury or environmental damage will not occur or that personal injury or environmental damage due to prior or present practices will not result in future liabilities. While management believes that the Company is in substantial compliance with all material HSE government requirements relating to its operations, changes in government laws and regulations are ongoing and may make HSE compliance increasingly expensive. It is not possible to predict future costs, which may be incurred to meet environmental obligations.

Product Liability and Warranty Claims

As a manufacturer of rubber-based and other products, the Company faces a risk of product liability and warranty claims from its direct customers and, in some cases, from end-users of its products. Although the Company carries commercial general liability insurance of the types, and in the amounts it believes to be reasonable by industry standards, any claim which is successful and is not covered by insurance or which exceeds the policy limit could have a material adverse effect on the Company.

Capacity and Equipment

The rubber compounding facilities have an annual capacity to produce approximately 400 million turn pounds.

The Company remains committed to continuous maintenance and upgrading of its equipment. Critical equipment remains not only in a high state of repair, but is also technologically up to date so that the Company is able to ensure the reliability of supply to its customers at competitive prices and at a high quality standard.

The Company has also made investments in capacity and efficiency in its Acton Vale operations. In recent years, the Company purchased molds and injection molding equipment to enhance its presence in protective products, such as CBRN protective gloves, defense footwear and gas masks. The acquisition of Flexible and IRT increased the number of rubber injection molding presses and other types of manufacturing and testing equipment.

Should additional equipment be required to fulfill any substantial increases in sales, it can be readily sourced in the market.

MD&A (cont'd)

Production Disruptions

Our production facilities, and those of our subcontractors, are subject to risk of shut-down caused by fire, natural disaster or other catastrophic event, labour conflicts or other forces or events beyond our control, or could result from a disruption of supply of source materials from suppliers and sub-suppliers. Any prolonged shut-down of one or more of our production facilities or that of our subcontractors could result in a materially negative impact on our profitability.

Acquisitions and Integration

As part of our growth strategy, we will continue to pursue acquisitions in areas we have identified as consistent with such strategy. However, there can be no assurance that we will identify suitable targets for acquisition or be able to acquire suitable targets successfully. In addition, there is also a risk that the Company may not be able to successfully integrate any acquisition or achieve all or any of the anticipated synergies of such acquisition or to do so within the anticipated timelines, any of which could adversely impact our profitability and financial condition.

Key Personnel

The Company's future success largely depends on its ability to recruit, retain and develop qualified managers and other key personnel. If key persons leave the Company and successors cannot be recruited or if the Company is unable to attract qualified personnel, this could have a negative impact on our profitability and financial condition.

DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the fiscal year of the Company, an evaluation was carried out under the supervision of and with the participation of the Company's management, including our CEO and CFO, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective as of December 31, 2016, the end of the period covered by management's discussion and analysis, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by officers within those entities.

The Company's CEO and its CFO are responsible for establishing and maintaining the Company's disclosure controls and procedures. The Disclosure Committee, composed of senior managers of the Company, assists the CEO and CFO in evaluating the information and appropriateness of material subject to public disclosure.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent period, there have been no changes in the Company's existing 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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has designed internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with IFRS in its consolidated financial statements. The CEO/Chairman and the CFO have supervised management in the evaluation of the design and effectiveness of the Company's internal controls over financial reporting as at December 31, 2016 and believe the design and effectiveness of the internal controls to be effective.

OUTLOOK

Looking ahead to 2017, the Company aims to increase earnings while managing costs and completing a number of initiatives still in progress from 2016. The key objective of these initiatives is to strengthen the Company's business platform and the resources available to its leadership teams. With its strong balance sheet position and cash flow heading into 2017, the Company is able to invest in information technology and capital expenditures required to support innovation, enhance operational efficiencies and further strengthen existing controls, as well as the capacity to execute on potential acquisitions. By further enhancing and standardizing the existing business platform, the Company will be in a position to integrate new business opportunities more effectively and in a timely manner.

In 2017, Rubber Compounding will continue to work on expanding and diversifying its client base to include more customers that require more sophisticated and higher margin compounds. This business still has excess capacity, and the goal is to fill it. Early indications from customers in 2017 have been encouraging, as demand in the OTR and industrial sectors continues to grow, and activity in the mining and oil & gas sectors are showing signs of improvement over prior years.

The defense business within Engineered Products has started 2017 with a stronger order book than 2016. This is due, in part, to the anticipated commencement of delivery in the second half of the year on contracts delayed in 2016 as a result of customer-driven specification changes. In addition, the Company is encouraged by the possibility of improving prospects for defense spending in certain countries, including the United States, based on proposed policy changes. With the restructuring work accomplished in 2016, a strong leadership team and ongoing improvement initiatives, the defense business is well positioned to win awards. However, there can be no certainty as to the timing or nature of government policy changes and their impact on defense budgeting, nor with respect to timing or size of expected tenders and awards of new business.

Under the leadership of its new president, the Automotive segment's primary focus in 2017 will be to align engineering and sales resources for customer support and product development in all markets. Automotive's platform life-cycle management will be strengthened by selling more aggressively in its traditional automotive markets, while rolling out campaigns for ancillary markets where anti-vibration and noise abatement solutions are required, such as industrial and agricultural. However, the uncertainty created by rapidly changing political conditions that could affect globalized industries, such as automotive, may impact our ability to realize these objectives and affect our ability to plan effectively until specific policy changes, if any, are announced.

AirBoss is committed to enhance shareholder value by driving sustainable profitable growth. With its strong balance sheet and ongoing free cash flow reducing debt, the Company remains well positioned to do so in the right circumstances and in a prudent fashion.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of AirBoss of America Corp. and all the information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared by management, in accordance with IFRS. When alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented in this annual report and has ensured that it is consistent with that presented in the financial statements.

AirBoss of America Corp. maintains systems of internal accounting and administrative controls consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and all members are outside directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers the engagement or re-appointment of the external auditors for review by the Board and approval by the shareholders.

KPMG LLP, the Company's external auditors, who are appointed by the shareholders, audited the consolidated financial statements as of and for the years ended December 31, 2016 and December 31, 2015 in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. KPMG LLP has full and free access to the Audit Committee.

March 16, 2017



P. Gren Schoch
Chairman & Chief Executive Officer



Daniel Gagnon
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of AirBoss of America Corp.

We have audited the accompanying consolidated financial statements of AirBoss of America Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of profit and comprehensive income, consolidated changes in equity and consolidated statement of cash flows for the years then ended, and notes, comprising 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 International Financial Reporting Standards, 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.

Auditors' Responsibility

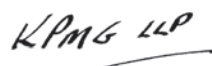
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain 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 our 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, we consider 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 consolidated financial statements.

We believe that the audit evidence we have obtained 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 consolidated financial position of AirBoss of America Corp. as at December 31, 2016 and December 31, 2015 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
March 16, 2017

Consolidated Statement of Financial Position

<i>In thousands of US dollars</i>	<i>Note</i>	December 31, 2016	December 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents		27,971	11,961
Trade and other receivables	5	42,430	42,148
Prepaid expenses		3,902	2,969
Inventories	6	32,380	36,205
Current income taxes receivable	15	1,177	1,820
Other Assets	9	-	275
Total current assets		107,860	95,378
Non-current assets			
Property, plant and equipment	7	61,360	62,092
Intangible assets	8	54,333	58,379
Other assets	9	1,565	1,890
Total non-current assets		117,258	122,361
Total assets		225,118	217,739
LIABILITIES			
Current liabilities			
Loans and borrowings	11	4,009	4,064
Trade and other payables, including derivatives		32,699	31,472
Employee benefits	18	1,223	1,143
Provisions	12	26	13
Total current liabilities		37,957	36,692
Non-current liabilities			
Loans and borrowings	11	69,197	72,858
Employee benefits	18	507	508
Provisions	12	1,755	1,348
Deferred income tax liabilities	15	6,419	6,799
Total non-current liabilities		77,878	81,513
Total liabilities		115,835	118,205
EQUITY			
Share capital	13	37,826	37,681
Contributed surplus	13	1,899	1,691
Retained earnings		69,558	60,162
Total equity		109,283	99,534
Total liabilities and equity		225,118	217,739

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

On behalf of the Board



P.G. Schoch
Director



Robert L. McLeish
Director

Consolidated Statement of Profit and Comprehensive income

For the year ended December 31*In thousands of US dollars*

	<i>Note</i>	2016	2015
Net Sales		267,628	304,909
Cost of sales	6	(221,032)	(249,575)
Gross profit		46,596	55,334
General and administrative expenses	4	(18,940)	(26,248)
Selling and marketing expenses		(5,801)	(5,501)
Research and development expenses	16	(2,676)	(2,057)
Other income (expenses)	9	123	(1,174)
Operating expenses		(27,294)	(34,980)
Results from operating activities		19,302	20,354
Finance costs	11,18	(2,830)	(2,296)
Profit before income tax		16,472	18,058
Income tax expense	15	(2,650)	(4,776)
Profit and total comprehensive income for the year		13,822	13,282
Earnings per share			
Basic	14	0.60	0.58
Diluted	14	0.59	0.56

Consolidated Statement of Changes in Equity

<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, 2015	37,784	1,074	51,177	90,035
Total comprehensive income for the year				
Profit for the year	-	-	13,282	13,282
Contributions by and distributions to owners				
Stock options expensed	-	716	-	716
Share options exercised	(103)	(69)	-	(172)
Share options forfeited	-	(30)	-	(30)
Dividends to equity holders	-	-	(4,297)	(4,297)
Total contributions by and distributions to owners	(103)	617	(4,297)	(3,783)
Balance at December 31, 2015	37,681	1,691	60,162	99,534

<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, 2016	37,681	1,691	60,162	99,534
Total comprehensive income for the year				
Profit for the year	-	-	13,282	13,282
Contributions by and distributions to owners				
Stock options expensed	-	449	-	449
Share options exercised	67	(200)	-	(133)
Share awards vested	78	-	-	78
Share options forfeited	-	(41)	-	(41)
Dividends to equity holders	-	-	(4,426)	(4,426)
Total contributions by and distributions to owners	145	208	(4,426)	(4,073)
Balance at December 31, 2016	37,826	1,899	69,558	109,283

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31
In thousands of US dollars

	Note	December 31, 2016	December 31, 2015
Cash flows from operating activities			
Profit for the year		13,822	13,282
Adjustments for:			
Depreciation	7	6,976	6,753
Amortization of intangible assets	8	3,409	2,827
Loss on disposal of property, plant and equipment	7	7	371
Finance costs	11, 18	2,830	2,296
Unrealized foreign exchange losses / (gains)		392	(2,151)
Share-based payment expense	13	885	1,607
SRED tax credits	16	(633)	(702)
Current income tax expense	15	3,048	2,299
Deferred income tax (recovery) / expense	15	(398)	2,477
Post-retirement benefits expense / (income)	18	(26)	4
Write-down of other assets	9	275	351
Other		(88)	(48)
		30,499	29,366
Change in inventories		3,825	7,228
Change in trade and other receivables		(242)	1,203
Change in prepaid expenses		(923)	491
Change in trade and other payables		693	(8,437)
Change in provisions		(3)	(2,131)
Net change in non-cash or working capital balances		3,350	(1,646)
Interest paid		(2,334)	(1,733)
Income tax paid		(1,775)	(3,026)
Net cash provided by operating activities		29,740	22,961
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		64	21
Acquisition of property, plant and equipment	7	(6,315)	(9,450)
Acquisition of intangible assets	8	(87)	(581)
Acquisition of subsidiary	4	724	(36,573)
Net cash used in investing activities		(5,614)	(46,583)
Cash flows from financing activities			
Repayment of borrowings		(3,994)	(12,037)
Proceeds from long term borrowings		-	38,893
Repayment of share purchase loans	9	764	-
Share purchase loans	9	(372)	-
Interest received on share purchase loan		12	-
Tax paid on exercise of share options		(133)	(171)
Dividends paid	13	(4,368)	(4,217)
Net cash provided by (used in) financing activities		(8,091)	22,468
Net increase (decrease) in cash and cash equivalents		16,035	(1,154)
Cash and cash equivalents at January 1		11,961	13,139
Effect of exchange rate fluctuations on cash held		(25)	(24)
Cash and cash equivalents at December 31		27,971	11,961

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements ("CFS")

For the years ended December 31, 2016 and 2015

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

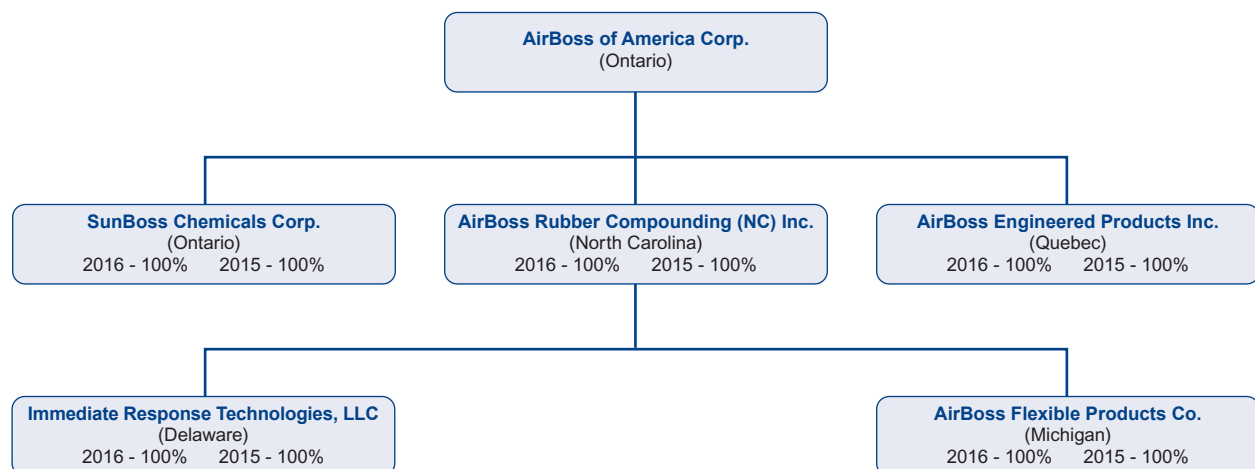
NOTE 1 REPORTING ENTITY

AirBoss of America Corp. ("the Company" or "AirBoss") 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 consolidated financial statements of the Company as at and for the year ended December 31, 2016 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 19).

Subsidiaries are consolidated based on control which is assessed on whether the Company has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

List of Subsidiaries

Set out below is a list of operating subsidiaries of the Company.



AirBoss operates in three business segments, Rubber Compounding, Engineered Products and Automotive, through six significant legal entities including the parent AirBoss of America Corp. and the following five wholly-owned operating subsidiaries: AirBoss Rubber Compounding (NC) Inc., SunBoss Chemicals Corp., AirBoss Produits d'Ingenierie Inc./AirBoss Engineered Products Inc. ("AirBoss Engineered Products"), AirBoss Flexible Products Co. and Immediate Response Technologies, LLC.

AirBoss, through its AirBoss Rubber Compounding division and its wholly-owned subsidiaries AirBoss Rubber Compounding (NC) Inc. and SunBoss Chemicals Corp. ("SunBoss") (collectively, "ARC"), is engaged in custom rubber compounding, supplying mixed rubber for use in mining, transportation, industrial rubber products, military, automotive, conveyor belting, and other products, primarily in North America. SunBoss sources chemicals used in the rubber compounding business for both internal consumption and external sales to customers who mix compounds internally.

AirBoss Engineered Products and Immediate Response Technologies, LLC ("IRT") (together called "AEP") carry on our AirBoss Defense business, which is a world leader in the development, manufacture and sale of personal protection and safety products for Chemical, Biological, Radiological and Nuclear ("CBRN") hazards, as well as communicable diseases and respiratory threats for the individual, First Responder, Medical, Military, Law Enforcement, Fire and Industrial communities. AEP also produces calendered and extruded rubber products used by its customers in the manufacture of industrial products and recreational vehicles.

AirBoss Flexible Products Co. ("AFP") operates our Automotive division and is a leading supplier of innovative and cost-effective anti-vibration solutions primarily to the North American automotive market. AFP designs, engineers and manufactures rubber and synthetic rubber products, such as bushings, dampeners, boots and isolators that are used to eliminate or control undesired vibration and noise, to enhance interior comfort, quality, increase the durability of a vehicle, and improve the overall experience of a vehicle's passengers.

NOTE 2 BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Consolidated financial statements were authorized for issue by the Board of Directors on March 16, 2017.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- certain property, plant and equipment was re-measured at fair value on the adoption of IFRS
- forward contracts are measured at fair value
- liabilities for cash settled share-based payment arrangements are initially and thereafter measured at fair value
- equity settled share based payment arrangements are measured at fair value at the grant date
- recognition of future income taxes on foreign exchange differences where the currency of the tax basis on non-monetary assets and liabilities differ from the functional currency
- the employee benefit liability is recognized as the net total of the plan assets, at fair value, less the present value of the defined benefit obligation

(c) Functional and presentation currency

These consolidated financial statements are presented in US dollars ("USD"), which is the Company's functional currency. All financial information presented in US dollars has been rounded to the nearest thousand, except where otherwise indicated.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Significant areas requiring the use of estimates include valuation of accounts receivable, inventory, intangibles, accounting for income taxes, share-based payments, measurement of post-retirement benefits and fair value of assets acquired through business combination. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 4 – acquisition of business

Note 5 – trade and other receivables

Note 6 – inventories

Note 8 – intangible assets

Note 15 – income taxes

Note 16 – government assistance

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 8 – intangible assets - key assumptions used in discounted cash flow projections for impairment of intangible assets;

Note 12 – provisions;

Note 13 – capital and other components of equity;

Note 15 – utilization of tax losses;

Note 17 – commitments and contingencies; and

Note 18 – measurement of post-retirement benefits.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Foreign currency**(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in USD, which is the Group's functional and the Group's presentation currency.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions or valuation where items are re-measured. Monetary assets and liabilities denominated in a currency other than the functional currency are translated to the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities are recognized in profit or loss on the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance cost'. All other foreign exchange gains and losses are presented on a net basis in the income statement within other income (expense).

(b) Financial instruments**(i) Non-derivative financial assets**

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset, expire or are settled.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: cash and cash equivalents and other assets; trade and other receivables and other assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade and other receivables

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Trade and other receivables comprise trade, other receivables and notes receivable.

Other assets

Other assets are financial assets which are comprised of investments, a convertible promissory note and share purchase loans. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, investments are measured at cost less any permanent decline in value. Convertible promissory note and share purchase loans subsequently include accrued interest.

(ii) Non-derivative financial liabilities

All financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, canceled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings; bank overdrafts; trade and other payables. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

(iv) Derivative financial instruments

The Group holds stand-alone derivative financial instruments to reduce its foreign currency risk exposures.

Embedded derivatives are separated from the host contract and accounted for separately. If the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized immediately in profit or loss.

(c) Property, plant and equipment

(i) Recognition and measurement

Land and buildings comprise mainly manufacturing facilities and offices. Items of property, plant and equipment are measured at historical cost (net of government grants) less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Land is not depreciated. For other property, plant and equipment, depreciation is calculated over the depreciable amount, which is the cost of an asset, revalued amount or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of property, plant and equipment, with certain manufacturing equipment being depreciated on a units of production basis since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- | | |
|---|-------------|
| • buildings | 15-40 years |
| • plant and manufacturing equipment | 5-15 years |
| • vehicles | 3-5 years |
| • furniture, office, lab and computer equipment | 3-5 years |

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(d) Intangible assets**(i) Goodwill**

Goodwill that arises upon the acquisition of a business is included in intangible assets. At initial recognition, goodwill is measured as the excess of purchase price over the fair value of identifiable net assets.

In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Canadian Generally Accepted Accounting Principles.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested annually for impairment. Impairment losses on goodwill are not reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or Groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

(ii) Customer Relationships

Customer Relationships that arise upon the acquisition of a business are included in intangible assets. At initial recognition, customer relationships are measured at fair value based on the current customers total sales, estimating an annual attrition rate and future growth based on current market conditions and historical data.

(iii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Investment tax credits and other related government assistance are recorded as a reduction of R&D department costs. Investment tax credits related to capital assets reduce property, plant and equipment accordingly.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use and borrowing costs on qualifying assets. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(iv) Other intangible assets

Other intangible assets, such as software, that are acquired or developed by the Group and have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses. Costs associated with annual licenses and maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when there is an ability to use the software product and it can be demonstrated how the software product will generate probable future economic benefits.

Directly attributable costs that are capitalized as part of the software product include the incremental software development or contracted employee costs. Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

(v) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and intellectual property, are recognized in profit or loss as incurred.

(vi) Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

The estimated useful lives for the current and comparative periods are as follows:

- | | |
|---------------------------------|-----------|
| • software | 5 years |
| • capitalized development costs | 3-5 years |
| • customer relationships | 10 years |

(e) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. Impairment charges are recorded against cost of sales, when it is determined the net realizable value is less than cost.

(f) Employee benefits

(i) Defined benefit plans

The Group provides designated employees with defined post-employment benefits based upon their years of service. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. These benefits are accrued by the Company and remain unfunded unless certain events occur. The Group's net obligation, in respect of defined benefit pension plans, is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets (if any) are deducted. The discount rate is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The Group recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and reports them in retained earnings.

Settlements are approved by the Board of Directors and any difference between the final cash settlement and the Group's net obligation, are recognized at that time as a gain or loss to the current Statement of Income.

(ii) Other long-term employee benefits

The Group provides certain employees with post retirement life insurance benefits that are unfunded. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries. The Group's net obligation in respect of long-term employee benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. Any actuarial gains and losses are recognized in other comprehensive income and retained earnings in the period in which they arise.

(iii) Defined Contribution Plan

US operating subsidiaries of Airboss maintain 401(k) defined contribution plans for their respective employees. The Company and its Canadian operating subsidiaries maintain registered and unregistered defined contribution plans for their employees.

(iv) Multi-Employer Pension Plan

The Group 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:

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

(v) Bonus Plan

The Group recognizes a liability for unpaid bonuses and an expense for all bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders, after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(g) Provisions

Provisions for environmental restoration and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(h) Net Sales:**(i) Goods Sold**

Net sales from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Net sales are recognized when: persuasive evidence that the significant risks and rewards of ownership have been transferred to the buyer; recovery of the consideration is probable; the associated costs and possible return of goods can be estimated reliably; there is no continuing management involvement with the goods; and the amount of net sales can be measured reliably. Net sales are recorded based on the price specified in the price quotes or contracts. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of net sales as the sales are recognized.

The timing of the transfers of risks and rewards may be upon shipment to, or receipt by, customers depending on the individual terms of the contract of sale. Generally, the buyer has no right of return except if the product did not comply with the agreed upon specifications.

(ii) Services

Net sales from services rendered is recognized in profit or loss on provision of the services.

(iii) Presentation

Net sales and cost of sales are presented on a gross basis in the consolidated statements of income when the Group is acting as principal and is subject to the significant risks and rewards of the transaction. Where the Group receives consignment inventory for processing, the tolling charges are recorded as net sales.

(i) Government grants

An unconditional government grant is recognized as a reduction of the cost of the asset acquired or expenses incurred when the grant becomes receivable.

(j) Lease payments

Payments made under operating leases are recognized in profit or loss, on a straight-line basis, over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

(k) Finance income and finance costs

Finance income comprises interest income on funds invested and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized, as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets and the financing component of employee benefits. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(l) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years. Current tax also includes any tax arising from dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(m) Segment reporting

Segment results that are reported to the Group's CEO (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Operating segments are aggregated if they are similar and demonstrate similar economic characteristics. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and tax assets and liabilities.

(n) Share-based payments

At the Company's Annual General and Special meeting of Shareholders held on May 14, 2015, shareholders approved the Company's 2015 Omnibus Incentive Plan ("Omnibus Plan"). The Omnibus Plan is a share-based compensation plan, under which the entity receives services from directors, employees and certain advisors as consideration for equity instruments of the Group. The fair value of the services received in exchange for the grant of the equity awards is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the awards granted.

Under the Omnibus Plan, the Company issued restricted stock units, performance share units, deferred share units and stock options pursuant to the terms and conditions of the Omnibus Plan and the related award agreements entered into thereunder. Non-market vesting conditions are included in assumptions about the number of equity awards that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of equity awards that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. When options, performance share units and deferred share units are exercised, the Company issues new shares. The proceeds received, together with the amount recorded in contributed surplus, are credited to share capital when the options are exercised. The beneficiary can elect to convert the fair value of the vested options to the market value of shares on a cash-less basis on the exercise date.

The Group also had a cash-settled stock appreciation rights plan ("SAR"), a form of stock-based compensation. The compensation expense was 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 employee in respect of SAR. The liability was re-measured at each reporting date and at the settlement date. Any changes in the fair value of the liability were recognized as a compensation expense in the statement of income. This plan was discontinued and fully settled in 2015.

The dilutive effect of outstanding equity awards is reflected as additional share dilution in the computation of diluted earnings per share.

(o) New Standards and interpretations adopted and not yet adopted.**Adopted**

On December 18, 2014 the IASB issued amendments to IAS 1 "Presentation of Financial Statements" ("IAS 1") as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). Effective January 1, 2016, the Company adopted the IASB issued amendments to IAS 1 "Presentation of Financial Statements." The adoption of these amendments had no significant impact on the financial statements.

Not yet adopted

In July 2014 the IASB finalized IFRS 9, "Financial Instruments" ("IFRS 9"). The new standard includes revised guidance on the classification and measurement of financial assets and liabilities, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of the new standard on its consolidated financial statements and does not expect the adoption of this standard to have a material impact on the financial statements.

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"). The new standard provides a comprehensive framework for recognition, measurement and disclosure of net sales from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

On January 13, 2016 the IASB issued IFRS 16 "Leases". This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. These amendments will not require any significant change to current practice, but should facilitate improved financial statements disclosures. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. The Company is currently assessing the impact of these amendments on its consolidated financial statements.

NOTE 4 ACQUISITION OF IMMEDIATE RESPONSE TECHNOLOGIES, LLC

On July 24, 2015, the Company, through its wholly-owned subsidiary AirBoss-Defense Inc., acquired all of the membership interests of Immediate Response Technologies, LLC ("IRT"), a privately-owned U.S. company that is a leading provider of personal protection and safety products for CBRN hazards, as well as communicable diseases and respiratory threats for the individual, First Responder, Medical, Military, Law Enforcement, Fire and Industrial communities.

The acquisition was made for initial cash consideration of \$35,849, after working capital adjustments, with the potential for additional earn-out payments in a combination of cash and equity having a maximum aggregate value of up to approximately \$25,000, subject to the achievement of specific performance objectives over the 60 month period following the close of the transaction. The acquisition consideration and related expenses were financed with cash on hand and debt, with the Company utilizing a new \$38,000 term loan under its existing debt facilities.

The acquisition of IRT by the Company is accounted for using the acquisition method of accounting, whereby, IRT's assets and liabilities are revalued to their fair value and any excess of the purchase price is recognized as goodwill.

In the period from July to December 31, 2015, IRT contributed net sales of \$8,684 and incurred loss of \$7.

If the acquisition had occurred on January 1, 2015, management estimates that consolidated net sales would have been \$316,344 and profit for the year of \$14,380. In determining these amounts, management had assumed that the fair value of the adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2015. Profit would be adjusted for depreciation on the fair value of the capital assets acquired, amortization of customer relationships, amortization of fair value increment of inventory, interest on new long-term debt, elimination of deferred financing cost, elimination of management and board fees, elimination of intercompany sales at preacquisition period, and related tax effects. IRT is classified as part of AirBoss Engineered Products business segment.

Acquisition-related costs

The Company incurred acquisition-related costs of \$1,304 on legal fees and due diligence costs in 2015 and \$nil in 2016. These costs have been included in "general and administrative expenses".

Identifiable assets acquired and liabilities assumed

The following table summarizes the recognized amounts of identifiable assets acquired and liabilities assumed at the acquisition date.

(US in thousands)

Consideration:	
Cash	36,770
Preliminary adjustments to working capital	(197)
Subsequent adjustments	(724)
Final adjustments to working capital	(921)
Total Consideration:	35,849
Fair value of assets acquired:	
Accounts receivable	1,012
Inventory	3,778
Prepaid expenses	953
Property and equipment	4,500
Customer relationships	12,250
Total Assets	22,493
Value of liabilities assumed:	
Accounts payable	(1,693)
Provisions	(278)
Total liabilities	(1,971)
Net assets acquired	20,522
Excess of purchase price over fair value of identifiable assets acquired	15,327

Notes to CFS (cont'd)

Goodwill

The goodwill is attributable mainly to the skills and technical talent of IRT's work force, proprietary technology and the synergies expected to be achieved from integrating IRT into the Company's existing business. Elected values determined tax deductibility of goodwill.

NOTE 5 TRADE AND OTHER RECEIVABLES**December 31***In thousands of US dollars*

	2016	2015
Trade receivables	41,636	41,181
Less: allowance for doubtful accounts	(95)	(734)
	41,541	40,447
Other receivables	889	1,701
	42,430	42,148

Impairment losses

The aging of trade receivables at the reporting date was:

December 31 <i>In thousands of US dollars</i>	2016		2015	
	Gross	Impairment	Gross	Impairment
Within terms	31,597	-	33,055	-
Past due 0-30 days	8,761	-	5,576	-
Past due 31-120 days	1,278	(95)	2,550	(734)
	41,636	(95)	41,181	(734)

The continuity of the allowance for doubtful accounts was:

<i>In thousands of US dollars</i>	2016	2015
Balance at January 1	(734)	(254)
Impairment loss recognized	(115)	(876)
Collected	256	52
Revised estimate/write-off	498	344
Balance at December 31	(95)	(734)

NOTE 6 INVENTORIES**December 31***In thousands of US dollars*

	2016	2015
Raw materials and consumables	22,524	23,625
Work in progress	2,601	2,340
Finished goods	6,706	8,373
Inventory in transit	1,735	2,120
Other inventory	-	879
	33,566	37,337
Provisions	(1,186)	(1,132)
	32,380	36,205

An inventory recovery of \$55 (2015: charge of \$51) was included in cost of sales.

NOTE 7 PROPERTY, PLANT AND EQUIPMENT

<i>In thousands of US dollars</i>	Land and buildings	Plant and equipment	Furniture and equipment	Under construction	Total
Cost or deemed cost					
Balance at January 1, 2015	15,217	58,868	1,653	4,816	80,554
Additions	182	1,542	35	8,147	9,906
Disposals	(539)	(1,742)	(19)	-	(2,300)
Transfers	1,624	6,956	70	(9,106)	(456)
Business Acquisition (Note 4)	85	4,286	82	-	4,453
Balance at December 31, 2015	16,569	69,910	1,821	3,857	92,157
Additions	141	2,923	6	3,245	6,315
Disposals	-	(217)	(29)	-	(246)
Transfers	1,226	3,943	(89)	(5,080)	-
Balance at December 31, 2016	17,936	76,559	1,709	2,022	98,226
Accumulated depreciation					
Balance at January 1, 2015	3,775	20,452	993	-	25,220
Depreciation for the period	883	5,638	232	-	6,753
Disposals	(197)	(1,700)	(11)	-	(1,908)
Balance at December 31, 2015	4,461	24,390	1,214	-	30,065
Depreciation for the period	888	5,934	154	-	6,976
Disposals	-	(146)	(29)	-	(175)
Balance at December 31, 2016	5,349	30,178	1,339	-	36,866
Carrying amounts					
<i>In thousands of US dollars</i>	Land and buildings	Plant and equipment	Furniture and equipment	Under construction	Total
At December 31, 2015	12,108	45,520	607	3,857	62,092
At December 31, 2016	12,587	46,381	370	2,022	61,360

Depreciation expense of \$6,733 (2015: \$6,396) was charged to costs of sales, \$103 (2015: \$210) was charged to general and administrative expense and \$140 (2015: \$147) was charged to research and development expenses. Rental expense for equipment under operating lease of \$226 (2015: \$314) was included in the income statement.

Government assistance grants relating to capital assets were \$1,272 in 2016 (2015: \$213); land and buildings and property, plant and equipment were adjusted accordingly. Loss on disposal of \$7 is included in depreciation expense and charged to general and administrative expense.

NOTE 8 INTANGIBLE ASSETS

<i>In thousands of US dollars</i>	Customer Relationships	Goodwill	Software	Total
Cost				
Balance at January 1, 2015	16,000	16,898	3,413	36,311
Purchases	-	-	125	125
Disposals	-	-	(36)	(36)
Transfers	-	-	456	456
Business Acquisition (Note 4)	12,250	16,051	47	28,348
Balance at December 31, 2015	28,250	32,949	4,005	65,204
Purchases	-	-	87	87
Purchase price allocation finalization	-	(724)	-	(724)
Balance at December 31, 2016	28,250	32,225	4,092	64,567
Amortization and impairment losses				
Balance at January 1, 2015	1,924	-	2,110	4,034
Amortization for the period	2,213	-	614	2,827
Transfers	-	-	(36)	(36)
Balance at December 31, 2015	4,137	-	2,688	6,825
Amortization for the period	2,825	-	584	3,409
Balance at December 31, 2016	6,962	-	3,272	10,234
Carrying amounts				
At December 31, 2015	24,113	32,949	1,317	58,379
At December 31, 2016	21,288	32,225	820	54,333

Amortization expense of \$3,409 (2015: \$2,827) was charged to general and administrative expense. Flexible's remaining amortization for customer relationships is 6.8 years and IRT's remaining amortization for customer relationships is 8.5 years.

Goodwill**December 31***In thousands of US dollars*

	2016	2015
AEP	22,160	22,884
Automotive	10,065	10,065
	32,225	32,949

Indefinite-life intangible assets – customer relationships**December 31***In thousands of US dollars*

	2016	2015
AEP	10,412	11,637
Automotive	10,876	12,476
	21,288	24,113

Impairment

Goodwill is allocated to those Cash Generating Units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill. The Company's goodwill is allocated to AirBoss Engineered Products and Automotive. As at December 31, 2016 and December 31, 2015, there was no goodwill impairment. The goodwill for IRT was written down by \$724 as a result of the finalization of the working capital adjustment for the IRT purchase.

Recoverable amount

Recoverable amount was based on value in use. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit.

Key assumptions used in value-in-use calculations

The calculations of value in use for the Cash Generating Units are most sensitive to the following assumptions:

- Discount rate used 11.1%
- Growth rate of 2-5% for operating expenses used in the budget
- Projected sales used to extrapolate cash flows beyond the budget date

Cash flows were projected based on past experience, actual operating results and the business plan for a 1 year period. Cash flows for a further 5 year period were extrapolated using projected sales and a growth rate of 2-5% for operating expenses, which does not exceed the long-term average growth rate for the industry.

Net sales and margins in the business plan were budgeted based on discussions with customers, contracts on-hand and industry information, past experience and trends, as well as initiatives. The anticipated annual net sales have been based on expected growth levels (net of the inflationary effect of rising raw material prices).

The values assigned to the key assumptions represent management's assessment of future trends in the rubber, AEP and automotive industries and are based on both external sources and internal sources (historical data).

NOTE 9 OTHER ASSETS

<i>In thousands of US dollars</i>	Convertible promissory Note	Share purchase loan	10% equity investment	Other	Total
Balance at January 1, 2015	582	1,726	313	146	2,767
Accrued interest	44	16	-	-	60
Interest paid	-	(16)	-	-	(16)
Allowance for accrued interest	(76)	-	-	-	(76)
Write-down to fair value of convertible promissory note	(275)	-	-	-	(275)
Effect of movements in exchange rates	-	(279)	-	(16)	(295)
Balance at December 31, 2015	275	1,447	313	130	2,165
Accrued interest	-	12	-	-	12
Interest paid	-	(12)	-	-	(12)
Repayment of loan	-	(763)	-	-	(763)
New loan issuances (Note 20)	-	372	-	-	372
Write-down to fair value of convertible promissory note	(275)	-	-	-	(275)
Effect of movements in exchange rates	-	63	-	3	66
Balance at December 31, 2016	-	1,119	313	133	1,565

During the fourth quarter of 2016, the Company fully provided for the convertible promissory note and related interest receivable.

NOTE 10 DERIVATIVES NOT MEETING HEDGE ACCOUNTING CRITERIA**Foreign exchange hedge**

At December 31, 2016, the Company had contracts to sell US \$8,937 in 2017 for CAD \$12,000. The fair value of these contracts, representing a loss of \$58 was recorded in 2016 on the statement of financial position included in trade and other payables, including derivatives and changes in fair value recorded on the statement of income as expense. There were no forward contracts outstanding at December 31, 2015.

Interest rate swap

During 2015, the Company entered into an interest rate swap agreement for a notional amount of \$22.5 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 0.98%. The swap agreement matures on February 27, 2017.

During 2016, the net interest expense of the swap agreement was \$125 and \$125 was paid (2015: \$180 and \$196 was paid).

For the year ended December 31, 2016, the fair value of this agreement, representing a loss of \$11, (2015: loss of \$73) is recorded on the statement of financial position included in loans and borrowings and changes in fair value are recorded on the statement of income as finance costs.

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 it does not intend to hold for trading or speculation purposes.

NOTE 11 LOANS AND BORROWINGS**December 31**

<i>In thousands of US dollars</i>	2016	2015
Non-current		
Term debt	70,231	74,140
Less: deferred financing	(1,034)	(1,282)
	69,197	72,858
Current		
Term debt	4,009	4,064

December 31

<i>In thousands of US dollars</i>	2016	2015
CAD \$5,000 term debt, bearing interest at 5.25%, five year term, amortized over 20 years, with principal and interest payable quarterly and the balance repayable October 18, 2018.	2,979	3,131
US \$75,000 term debt, bearing interest at US Base Rate plus applicable margins from 75 to 175 basis points depending on covenants, five year term, amortized by specific installments of principal plus interest payable quarterly and the balance repayable December 10, 2020. Subsequent to year end, the loan was converted to LIBOR plus applicable margins from 175 to 275 basis points depending on covenants.	71,261	75,073
Subtotal	74,240	78,204
Less principal due within one year	(4,009)	(4,064)
	70,231	74,140
Less deferred financing	(1,034)	(1,282)
	69,197	72,858

Notes to CFS (cont'd)

During 2015, the Company amended its senior secured credit facilities to, among other things, increase the availability to approximately \$138,000, extend the maturity of the facilities and increase flexibility under the governing credit agreement to support future growth opportunities.

The Company's current credit facilities is comprised of a \$60,000 revolving facility, a term loan of \$75,000 (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 C\$5,000 and an accordion feature of up to an additional \$50,000 of availability, upon the satisfaction of customary conditions for such features. The maturity dates of the revolving credit facility and the US\$ term loan were extended from October 2018 to December 2020, while the maturity date of the C\$ term loan remains at October 2018.

Deferred financing fees, less accumulated amortization have been deducted against the term loan for presentation purposes.

In 2015, deferred financing fees of \$247 relating to the \$38,000 term debt loan to acquire IRT were incurred. Deferred financing fees of \$958, in regards to the amended agreement (dated December 10, 2015) were incurred. Deferred financing fees of \$282, which includes a write-down of \$148 in regards to the original credit agreement (dated October 2013) were expensed.

The fees are being amortized over 5 years and \$265 (2015: \$15) has been amortized and is included in finance costs.

Interest expense in 2016 on the term loans was \$2,239 (2015: \$1,575).

Principal repayments on the term loan are as follows:

<i>In thousands of US dollars</i>	Total	2017	2018	2019	2020
Term loan	74,240	4,009	8,356	5,625	56,250

In 2016 and 2015, under the Company's current credit facilities, the revolving facility consisted of \$30,000 US Revolving Credit facility and a \$30,000 US equivalent Canadian Revolving Credit Facility. \$60,000 of this facility is unused as at December 31, 2016.

All obligations under the current credit facility and related loan documentation are secured by a first charge against all of the Group's present and after acquired property in favor of the lenders.

At December 31, 2016 the Company is not in default, nor has it breached any terms of the credit agreement relating to the current credit facilities.

The contractual re-pricing dates at the end of the reporting period are as follows:

December 31 <i>In thousands of US dollars</i>	2016	2015
Less than 1 year	4,009	4,064
1 to 5 years	69,197	72,858
	73,206	76,922

The carrying amount and fair value of the borrowings are as follows:

<i>In thousands of US dollars</i>	Carrying amount		Fair value	
	2016	2015	2016	2015
Term debt	73,206	76,922	74,169	77,985

The fair value of current borrowings approximates the carrying amount, as the impact of discounting at current market rates will not have a material impact. The fair values are based on cash-flows discounted using a rate based on the borrowing rate of 4.16% (2015: 4.04%) for CAD fixed rate term loan and 2.63% (2015: 4.75%) for the US LIBOR term loan.

NOTE 12 PROVISIONS

<i>In thousands of US dollars</i>	Site restoration	Stock appreciation rights	Restricted stock units	Performance awards and Deferred stock units	Lease incentives	Total
Balance at January 1, 2015	86	2,956	194	-	278	3,514
Provisions accrued during the year	-	4,577	921	-	-	5,498
Payments during the year	-	(6,709)	-	-	-	(6,709)
Foreign exchange	(14)	(824)	(104)	-	-	(942)
Balance at December 31, 2015	72	-	1,011	-	278	1,361
Provisions accrued during the year	-	-	293	108	-	401
Payments during the year	-	-	-	-	-	-
Amortization during the year	-	-	-	-	(13)	(13)
Foreign exchange	2	-	33	(3)	-	32
Subtotal	74	-	1,337	105	265	1,781
Less principal due within one year	-	-	-	-	(26)	(26)
Balance at December 31, 2016	74	-	1,337	105	239	1,755

No legal provisions are recognized at December 31, 2016 and 2015.

Stock Appreciation Rights Plan

During 2011, the Company established a stock appreciation rights plan ("SAR Plan") to reward select directors and employees and issued 609,000 stock appreciation rights thereunder. Since 2012, no stock appreciation rights have been granted to officers, directors or advisors to the directors. The stock appreciation rights granted in 2011 vested on September 30, 2015 (539,000 rights) and November 13, 2015 (70,000 rights). During the fourth quarter of 2015, following the vesting date, cash payments were made to rights holders, net of tax withholdings, equal to the positive difference between the market price of the Company's common shares (defined under the SAR Plan as the trailing 10-day volume-weighted average price of the shares on the TSX) on the vesting date and the market price on the date of the grant.

As at December 31, 2015, no stock appreciation rights were outstanding. On September 30, 2015, 539,000 stock appreciation rights vested with a vesting date market price of CAD \$20.2887, resulting in a cash payment of \$5,996. On November 13, 2015, 70,000 stock appreciation rights vested with a vesting date market price of CAD \$18.7036, resulting in a cash payment of \$712.

The Company recognized \$4,577 as employee costs for the year ended December 31, 2015 relating to the SAR Plan, as a result of the change in share price.

Restricted Stock Units

Pursuant to its 2015 Omnibus Incentive Plan ("Omnibus Plan") approved by shareholders in 2015, the Company issued to certain executives an aggregate of 238,500 restricted stock units on the terms and conditions set out in the Omnibus Plan. 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. During 2016, no restricted stock units were issued (2015: 174,500). In 2016, 14,500 restricted stock units were forfeited, leaving 224,000 units outstanding at December 31, 2016. The restricted stock units vest three years following the grant date and have no performance requirements. At December 31, 2016 the Company has recognized as employee costs \$293 (2015: \$921) related to the plan.

Performance Awards

The Company has issued certain executives with an aggregate of 52,610 performance awards 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. During 2016, 52,610 (2015: nil) performance awards were issued, of which 1,930 were forfeited. The performance awards vest three years following the grant date. During 2016, the Company recognized as employee costs \$47 (2015: nil) related to the plan.

Deferred Stock Units

The Company has issued deferred stock units ("DSUs") to certain 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 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. At December 31, 2016, independent directors were granted an aggregate of 11,428 DSUs with a fair value of \$148 at the date of grant. During 2015, no DSUs were issued. During 2016, the Company recognized as employee costs \$61 related to DSUs issued under the Omnibus Plan.

NOTE 13 CAPITAL AND OTHER COMPONENTS OF EQUITY**Share Capital and Contributed Surplus**

Share Capital: Authorized - Unlimited number of Class A shares without par value designated as common shares.

Unlimited number of Class B preference shares without par value and issuable in series subject to the filing or articles of amendment. The directors may fix, from time to time before such issue, the number of shares that is to comprise each series and the designations, rights, privileges, restrictions and conditions attaching to each series.

Under the Omnibus plan, a maximum of 10% of issued and outstanding shares are available for issuance under any type of share-based compensation plan. As at December 31, 2016, 2,307,418 shares are available (2015: 2,302,185).

Issued share capital is as follows:

<i>In thousands of shares</i>	2016	2015
January 1	23,022	22,999
Exercise of share options	46	23
Share awards	6	-
December 31	23,074	23,022

Issuance of common shares

During 2016 100,000 options (2015: 43,000) were exercised resulting in the issuance of 45,994 common shares. On March 30, 2016 the Company issued certain executives with an aggregate of 6,339 share awards pursuant to the terms and conditions of the Omnibus Plan. The share awards vested immediately, with each recipient entitled to receive one common share for each share award within 30 days. The Company recognized as employee costs of \$78 (2015: \$nil) related to these awards.

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.

The contributed surplus is as follows:

<i>In thousands of US dollars</i>	2016	2015
Balance at January 1	1,691	1,074
Stock option expense	449	716
Exercise of stock options	(200)	(69)
Recovery of forfeited options	(41)	(30)
Balance at December 31	1,899	1,691

Stock Options

The term of an option shall not exceed 10 years from the date of grant. Options granted to directors and officers of the Company, which were outstanding at December 31, 2016, are as follows:

Range of exercise price (\$CAD)	Options outstanding Quantity	Weighted average contract life	Options exercisable Quantity
6.35	545,000	1.61	408,750
7.77	25,000	1.88	18,750
12.05	240,000	3.00	120,000
15.40	50,000	3.25	12,500
16.69	111,400	4.25	-
17.86	15,000	4.00	3,750
	986,400		563,750

Options granted and outstanding:

A summary of the status of the Company's stock option plan as of December 31, 2016 and 2015 and changes during the years then ended, is presented below:

	2016		2015	
	Quantity	Weighted average exercise price (\$CAD)	Quantity	Weighted average exercise price (\$CAD)
Outstanding beginning of year	995,000	8.65	978,000	7.82
Granted	111,400	16.69	85,000	15.83
Exercised	(100,000)	7.13	(43,000)	5.27
Forfeited	(20,000)	15.40	(25,000)	6.35
Outstanding end of year	986,400	9.57	995,000	8.65

During 2016, 100,000 options (2015: 43,000) were exercised on a cash-less basis for 45,994 shares (2015: 23,090).

Notes to CFS (cont'd)

Inputs for measurement of grant date fair values

The grant date fair value 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 share options and assumptions

<i>In Canadian dollars</i>	March 2016	December 2015
Fair value at grant date	\$3.60	\$4.70
Share price at grant date	15.25	17.53
Exercise price	16.69	17.86
Expected volatility (weighted average volatility)	34.6%	35.0%
Option life (expected weighted average life)	5 years	5 years
Expected dividends	0.02	0.01
Risk-free interest rate (based on government bonds)	0.01	0.01

The stock options issued vest as follows:

	Quantity
Vested at December 31, 2016	563,750
2017	277,000
2018	104,150
2019	34,600
2020	6,900
	986,400

Stock option expense

During the year, the Company recognized as employee costs \$408 (2015: \$686) relating to option grants in general and administrative expenses of the statement of income.

Dividends

Dividends on common shares were paid to shareholders of record quarterly in 2016 and in 2015 as follows:

Shareholder of record at:	2016		2015	
	\$CAD/share	Date Paid	\$CAD/share	Date Paid
March 31	0.06	April 14, 2016	0.06	April 16, 2015
June 30	0.065	July 14, 2016	0.06	July 16, 2015
September 30	0.065	October 14, 2016	0.06	October 15, 2015
December 31	0.065	January 12, 2017	0.06	January 14, 2016
	0.255		0.24	

The dividend payable at December 31, 2016 was \$1,117 (2015: \$998).

NOTE 14 EARNINGS PER SHARE

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

December 31 <i>In thousands of US dollars except per share amounts</i>	2016	2015
Numerator for basic and diluted earnings per share:		
Net income	13,822	13,282
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	23,062	23,019
Dilution effect of stock options	494	526
Diluted weighted average number of shares outstanding	23,556	23,545
Net income per share:		
Basic	0.60	0.58
Diluted	0.59	0.56

At December 31, 2016, 176,400 options (2015: nil) 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 15 INCOME TAXES

The provision for income taxes differs from the amount computed by applying the Canadian statutory income tax rate to income before income taxes for the following reasons:

December 31 <i>In thousands of US dollars</i>	2016	2015
Combined federal and provincial statutory income tax	4,365	4,765
Foreign tax differential	69	607
Effect of permanent differences	(1,542)	(582)
Difference arising on filing and assessments	(256)	42
Other	14	(56)
Total expense	2,650	4,776
The components of the provision for income taxes are as follows:		
Current	3,048	2,299
Deferred	(398)	2,477
Total	2,650	4,776

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows:

December 31 <i>In thousands of US dollars</i>	2016	2015
Deferred income tax assets:		
Non-capital income tax loss carry-forwards	872	72
Deferred income tax deductions relating to long-term liabilities	453	423
Equity Compensation	493	471
Financing fees	5	71
Alternative minimum tax	97	97
Capital assets	648	774
Other	42	59
	2,610	1,967
Deferred income tax liabilities:		
Research and development expenses deducted for accounting in excess of tax purposes	-	(59)
Deferred income tax deductions relating to long-term liabilities	(54)	(32)
Capital assets	(8,975)	(8,675)
	(9,029)	(8,766)
Net deferred income tax liabilities	(6,419)	(6,799)

Notes to CFS (cont'd)

In assessing the valuation of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of deferred taxable income during the period in which the temporary differences are deductible. Management considers the scheduled reversals of deferred income tax liabilities, the character of the income tax asset and the tax planning strategies in making this assessment. Management would not recognize deferred income tax assets if the more likely than not realization criterion is not met.

The Company has \$791 (2015: \$nil) available to offset deferred income taxes in the US and has recognized a related deferred income tax asset of \$791 (2015: \$nil).

The aggregate amount of taxable temporary differences associated with investments in subsidiaries, branches and associated and interests in joint ventures, for which no deferred tax liabilities have been recognized, is \$40,318 (2015: \$37,000).

NOTE 16 GOVERNMENT ASSISTANCE

During 2016, Rubber Compounding recognized grants of \$60 (2015: \$19); Engineered Products recognized grants of \$70 (2015: \$498); and Automotive recognized grants of \$13 (2015: \$nil) to support certain initiatives which were offset against expenses.

Scientific research and investment tax credits of \$617 (2015: \$489) were recognized in 2016; research and development costs were reduced accordingly. In addition, \$1,272 (2015: \$213) was recognized as a reduction to capital assets in respect of provincial tax credits.

NOTE 17 COMMITMENTS AND CONTINGENCIES**Commitments**

The Company is committed, under non-cancellable operating lease agreements, to minimum rentals for equipment and premises as follows:

<i>In thousands of US dollars</i>	Equipment	Premises	Total
2017	127	1,602	1,729
2018	67	1,602	1,669
2019	24	1,360	1,384
2020	8	432	440
2021	-	396	396
Thereafter	-	-	-
Total	226	5,392	5,618

Litigation

No legal provisions are recognized at December 31, 2016 and 2015.

NOTE 18 POST RETIREMENT BENEFITS

The Company maintains an unfunded supplementary employment retirement plan for an executive ("executive supplemental plan") and provides post retirement life insurance benefits to eligible retirees ("other benefit plan").

Funding for the executive supplemental plan is triggered on a change of control. The Company maintains an insurance policy to cover the obligation, in event of the executive's death. When the executive retires, and in certain circumstances, upon the termination of the executive's employment, the annual entitlement is funded from operations. The executive supplemental plan is a non-registered plan. At December 31, 2016, the weighted average duration of the defined benefit obligation was 12.3 years (2015: 13.2 years).

Risks associated with this benefit plan are similar to those of typical supplemental non-registered defined benefit plans, including interest rate risk, credit risk, longevity risk, etc. There are no significant risks associated with this plan that can be deemed unusual or require special disclosure.

The post-retirement life insurance benefits under the other benefit plan are for non-unionized and unionized employees of AirBoss Engineered Products Inc., which are unfunded defined benefit plans covering life insurance.

The methods of accounting, assumptions and frequency of valuations for the other benefit plan are similar to those used for defined benefit pension schemes. This plan is funded through proceeds from an insurance policy. Total estimated contribution to this plan for the next fiscal year is \$38. This plan is unfunded as such there is no plan asset to be disclosed. At December 31, 2016, the weighted average duration of the defined benefit obligation was 12 years (2015: 12 years).

This benefit plan exposes the Company to actuarial risks, such as interest rate risk and longevity risk.

December 31

In thousands of US dollars

	2016	2015
Statement of Financial Position obligations for:		
Executive supplemental plan	1,223	1,143
Other benefit plan	507	508
	1,730	1,651
Income statement charge for:		
Executive supplemental plan	45	100
Other benefit plan	22	23
	67	123

Notes to CFS (cont'd)

	Executive Supplemental Plan		Other benefit plan	
December 31				
<i>In thousands of US dollars</i>	2016	2015	2016	2015
Present value of unfunded obligation and Liability in the Statement of Financial Position	1,223	1,143	507	508
Movement in the defined benefit obligation is as follows:				
At January 1	1,143	1,251	508	628
Current service cost	-	-	3	3
Interest cost	45	43	19	20
Employer contribution	-	-	-	-
Gain on settlement	-	-	-	-
Benefit payment	-	-	(39)	(43)
Actuarial gain	-	57	-	-
Exchange differences	35	(208)	16	(100)
	1,223	1,143	507	508
At December 31				
The amounts recognized in the income statement are as follows:				
Gain on settlement	-	-	-	-
Post-retirement benefits expense	-	57	(39)	(43)
Interest cost	45	43	19	20
Exchange differences	35	(208)	16	(100)
Expense (recovery)	80	(108)	(4)	(123)

The current service charge was included in "general and administrative expense" and the interest cost is included in "finance costs" in the income statement.

	Executive Supplemental Plan		Other benefit plan	
December 31				
<i>In thousands of US dollars</i>	2016	2015	2016	2015
The principal actuarial valuation assumptions used were as follows:				
Discount rate	3.75%	3.75%	3.75%	3.75%
Mortality	CPM-RPP2014 Priv Table with adjustment factors to account for the level of benefits and with generational projection using improvement scale CPM-B	CPM-RPP2014 Priv Table with adjustment factors to account for the level of benefits and with generational projection using improvement scale CPM-B	CPM mortality table projected with scale B for the private sector	CPM mortality table projected with scale B for the private sector
Retirement age:				
Percentage of members with spouses at retirement	100%	100%	N/A	N/A

The sensitivity of the executive supplemental plan to changes in assumptions is set out below. The sensitivity analysis was performed by recalculating the defined benefit obligation and the current service cost at the same valuation date, but only changing the assumption for which the sensitivity was required. This obligation was then used to calculate the difference against the actual amount established as at December 31, 2015. The effect of a variation in a particular assumption on the change in obligation has been calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (e.g. due to correlations between economic assumptions), which may magnify or counteract the sensitivities.

AirBoss of America Corp.

Notes to CFS (cont'd)

	Supplemental Plan	
Membership data December 31	2016	2015
<i>In thousands of US dollars</i>		
Discount rate 3.50% (instead of 3.75%) (2015: 3.50% (instead of 3.75%))	38	39
Mortality 1-year increase in life expectancy	27	25
Retirement age 100% at age 64 years old (instead of 100% at 65 years old) (2015: 100% at age 64 years (instead of 100% at 65 years))	(67)	65

The sensitivity of the "other benefit plan" to changes in assumptions is set out below. The sensitivity analysis was performed by changing each assumption individually. If actual changes occur, some of these assumptions are likely to be correlated and result in a combined impact.

Fiscal Year ending December 31	2016	2015
Effect of an increase of 1% Post-employment benefit obligation	(53)	(53)
Effect of a decrease in 1% Post-employment benefit obligation	67	67
Mortality Sensitivity Analysis		
Effect of an increase of 10% on mortality rates Post-employment benefit obligation	6	6
Effect of a decrease of 10% on mortality rates Post-employment benefit obligation	(8)	(7)

Defined Contribution Plan

AirBoss Flexible Products Co. ("Flexible") maintained a 401(k) defined contribution plan for its employees. Total contributions to this plan during 2016 were \$444 (2015: \$300). For the year ended December 31, 2016, the expense for this plan was \$444 (2015: \$310).

AirBoss Rubber Compounding (NC) Inc. maintained a 401(k) plan for its employees. Total contributions to this plan during 2016 were \$78 (2015: \$81). For the year ended December 31, 2016, the expense for this plan was \$18 (2015: \$23).

AirBoss of America Corp. maintained a registered retirement savings plan defined contribution plan for all of their employees. Total estimated contribution and expense to this plan for 2016 was \$290 (2015: \$285).

AirBoss Engineered Products Inc. employees are covered under various registered and unregistered defined contribution plans. Total estimated contribution and expense to these plans for 2016 was \$147 (2015: \$177).

Multi-Employer Pension Plan

Flexible 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:

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

During 2016, the Company made contributions of \$289 (2015: \$284) to the multi-employer pension plan. The unfunded vested benefit ratio was 68.0% at December 31, 2016 (2015: 45.89%). The Steel Workers Pension Trust was in a net deficit at December 31, 2016 and the Company's portion of the deficit was unknown. The collective bargaining agreements that require contributions to the multi-employer plan are set to expire December 31, 2017. The collective bargaining agreement requires that the Group contributes \$0.40 for each hour worked by eligible employees during the preceding wage month. Total estimated contribution to this plan for the next fiscal year is \$296.

NOTE 19 SEGMENTED INFORMATION

The Group has three 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 Compounding. 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 semi-finished rubber related products.
- Automotive. 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.

For the year ended December 31	Rubber Compounding		Engineered Products		Automotive		Unallocated Corporate Costs		Total	
<i>In thousands of US dollars</i>	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Segment net sales	102,262	134,503	48,026	55,316	141,102	142,871	-	-	291,390	332,690
Inter-segment net sales	(22,308)	(24,028)	(1,454)	(3,753)	-	-	-	-	(23,762)	(27,781)
External net sales	79,954	110,475	46,572	51,563	141,102	142,871	-	-	267,628	304,909
Depreciation and amortization	3,560	3,511	3,472	3,124	3,268	2,923	43	37	10,343	9,595
Finance cost	4,727	3,582	15	14	-	10	(1,912)	(1,310)	2,830	2,296
Reportable segment profit (loss) before income tax	7,094	11,255	(1,621)	(479)	11,872	14,332	(873)	(7,049)	16,472	18,059
Income tax expense (recovery)	1,743	6,269	(789)	(38)	3,372	1,484	(1,676)	(2,939)	2,650	4,776
Net income	5,351	4,986	(832)	(441)	8,500	12,848	803	(4,110)	13,822	13,283
Reportable segment assets	66,182	60,199	71,213	73,286	67,960	71,962	19,763	12,292	225,118	217,739
Reportable segment liabilities	14,279	14,695	7,491	7,078	13,782	12,462	80,283	83,970	115,835	118,205
Capital expenditure	2,943	4,576	1,511	2,591	1,894	2,692	54	172	6,402	10,031

AirBoss of America Corp.

Notes to CFS (cont'd)

Geographical segments

The Rubber Compounding, Engineered Products and Automotive 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 are 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>	December 31, 2016		December 31, 2015	
	Net sales	Non-current assets	Net sales	Non-current assets
Canada	48,401	45,612	56,213	46,285
United States	205,336	71,647	226,815	76,076
Other countries	13,891	-	21,881	-
	267,628	117,259	304,909	122,361

Major customers

Net sales from one customer represent approximately 9% (2015: 8%) of the Group's total net sales in 2016. Five customers represented 31% (2015: 32%) of the Company's total net sales in 2016.

Major Products

<i>In thousands of US dollars</i>	2016	2015
Rubber Compounding		
Tolling	5,227	7,519
Mixing	74,727	102,956
	79,954	110,475
AEP		
Industrial	24,084	23,902
Defense	22,488	27,661
	46,572	51,563
Automotive	141,102	142,871
	267,628	304,909

NOTE 20 RELATED PARTIES

Related Party Transactions

Included in the operating lease commitments was a rental agreement for corporate office space between the Company and a company controlled by the CEO and Chairman of the Company. The monthly lease rate approximates fair market rental value. During the year, the Company paid rent for the corporate office of \$136 (2015: \$143).

During the year, the Company paid fees for the use of a facility in South Carolina of approximately \$21 (2015: \$22) to a company in which the CEO and Chairman is an officer.

In addition, during the year, Flexible paid rent of \$1,170 to a company controlled by the former President of Automotive for its office and manufacturing facilities (2015: \$1,115). The lease provides for monthly payments equivalent to an annual rental of \$1,170 and expires in 2019.

Notes to CFS (cont'd)

Transactions with key management personnel

Key management includes directors, CEO, President, CFO, and divisional Presidents. The compensation expense to key management for employee services is shown below:

December 31

In thousands of US dollars

	2016	2015
Salaries and other short term benefits	2,217	2,211
Pension/Post-employment benefits	45	43
Share-based payment expense	775	5,402
	3,037	7,656

The amounts disclosed in this table are the amounts recognized as operating expenses for accounting purposes during the period and do not necessarily represent amounts receivable or received in cash.

Key management and directors own 25.6% of the outstanding common shares.

In April 2014, the Company invested \$550 in the form of a convertible promissory note in a company of which the Deputy Chairman of the Company is the chairman. This note can be converted to an equity interest under the following conditions: (1) if the company has completed "qualified financing" raising \$1 million in gross proceeds (excluding the Company's loan); (2) if no "qualified financing" takes place prior to the maturity date, the Company has the option to convert into common stock within 60 days prior to the maturity date of the note. In 2016, the Company agreed to amend the terms of the promissory note to increase the interest rate of the loan to 15% per annum and extend the maturity date to April 11, 2017, at which time the principal and accrued interest on the note will be due and payable unless the note is converted or the loan is prepaid at an earlier date.

The convertible promissory note is accounted for as a loan receivable with separation of the conversion options that represent embedded derivatives. The loan is initially recognized at its fair value by discounting future cash flows at market interest rate for similar financial debt without the conversion options and is subsequently measured at amortized cost. The embedded derivatives are accounted for at fair value, which is currently considered nominal.

During 2016, a full provision was recorded against the convertible promissory note and any accrued interest. No interest was recorded on the statement of income for 2016 and 2015.

During 2014, the Company provided share purchase loans of CAD \$1,000 each to both the President and former Chief Financial Officer to purchase common shares of the Company. The share purchase loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or November 24, 2019. During the second quarter of 2016, the outstanding share purchase loan of \$764 (CAD \$1,000) was repaid in full by the former Chief Financial Officer. During the fourth quarter of 2016, the Company provided share purchase loans of CAD \$250 each (in aggregate \$372) to the new Chief Financial Officer and Senior Executive Vice President, Corporate. These loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or December 20, 2021. All share purchase loans bear interest at 1% annually with full recourse and interest is due and payable semi-annually. In total, 143,000 shares of the Company having a fair value of \$1,262 were pledged as collateral on these three loans. At December 31, 2016, the promissory notes of \$1,119, including accrued interest of \$12, were included in other assets. During the year, interest of \$12 (2015 \$16) was paid.

NOTE 21 FINANCIAL INSTRUMENTS

Financial risk management

The Company's activities result in exposure to a variety of financial risks, including risks related to commodity prices, currency fluctuation, interest rates, credit and liquidity.

Market Risk

Commodity prices and supplies

The Company's financial performance depends on certain outside sources for raw materials, including carbon black, synthetic and natural rubber, ethylene propylene diene monomer ("EPDM") and silicone used in the production of its products, the price and availability of which are subject to fluctuations from such factors as weather, exchange rates and the price of oil, changes in industry production capacity, changes in world inventory levels and other factors beyond the Company's control.

The Company manages its commodity price and supply risk by matching purchase commitments to its customers' requirements during term of the price quote, ranging from 1 to 3 months and maintains supply sources in different areas of the world.

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements; such contracts are not settled net.

The following table approximates the financial impact, (assuming changes are not passed along to its customers), on the Company of a 10% increase in the cost of its most critical raw materials based upon purchases made in the respective years:

\$Millions	Earnings before tax	
	2016	2015
Natural and synthetic rubber	(1.60)	(2.06)
Carbon black	(0.72)	(1.24)
EPDM	(0.58)	(0.68)
Silicone	(0.90)	(1.02)
	(3.80)	(5.00)

Notes to CFS (cont'd)

A small portion of the Company's products are sold at prices denominated in CAD dollars or based on prevailing CAD dollar prices; most of the raw material purchases are denominated in US dollars and a significant portion of its operational costs and expenses are incurred in Canadian dollars. Therefore, an increase in the value of the US dollar relative to the Canadian dollar decreases the net sales in US dollar terms realized by the Company from sales made in Canadian dollars, partially offset by lower Canadian dollar operational costs/expenses, which decreases operating margin and the cash flow available to fund operations. The net Canadian monetary assets of its Canadian operations represent a currency risk as the balances are re-measured at the month end spot rate creating an unrealized exchange gain or loss.

The Company manages its currency risk relating to monetary assets and liabilities denominated in Canadian dollars by increasing or decreasing the proportion of operating or term loan denominated in Canadian funds or forward currency contracts. The Rubber Compounding segment's profit and loss is somewhat naturally hedged in that sales denominated in US dollars offset US dollar expenses and debt service costs. Engineered Product's business has relatively higher Canadian dollar expense content and is not naturally hedged.

The following table approximates the following impact on the Company of a \$0.10 decrease in the value of one Canadian dollar in US currency:

\$Millions	Earnings before tax	
	2016	2015
Sales (1)	(2.8)	(2.5)
Purchases (2)	4.4	6.3

(1) Based upon Canadian dollar-denominated sales in 2016

(2) Based upon combined 2016 Canadian purchases and expenses

Interest Rate Risk

The Company's interest rate risk mainly arises from the interest rate impact on cash and floating rate debt. At the end of 2016, Canadian dollar borrowings are on a fixed rate basis (2015: variable rate basis). The US dollar borrowings are on a variable rate basis (2015: fixed rate basis). The Company has no formal policy to manage a certain proportion of borrowings on a fixed rate basis.

During 2015, the Company entered into an interest rate swap agreement for a notional amount of \$22.5 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 0.98%. The swap agreement matured on February 27, 2017.

During 2016, the net interest expense of the swap agreement was \$125 and \$125 was paid; (2015: \$180 and \$196 was paid).

For the year ended December 31, 2016, the fair value of this agreement, representing a loss of \$11 (2015: loss of \$73) is recorded on the statement of financial position included in loans and borrowings and changes in fair value are recorded on the statement of income as finance costs.

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 is not intended for trading or speculation purposes.

At the reporting date, the interest profile of the Company's interest-bearing financial instruments was:

December 31			
<i>In thousands of US dollars</i>		2016	2015
Fixed rate instruments			
Financial assets	1,120	1,722	
Financial liabilities	(2,979)	(3,131)	
Variable rate instruments			
Financial assets	-	-	
Financial liabilities	(70,884)	(74,704)	
Total	(72,743)	(76,113)	

Fair value sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates for the year would have increased or decreased net income and equity by:

<i>In thousands of US dollars</i>	Net income and equity	
	100bp increase	100bp decrease
2016		
Variable rate instruments	(330)	287
2015		
Variable rate instruments	(225)	225

This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

Notes to CFS (cont'd)

Credit Risk

The Company held cash and cash equivalents of \$27,971 at December 31, 2016 (2015: \$11,961), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A- to AA-, based on Standard and Poor's ratings.

The Company sells its products to a variety of customers under various payment terms in the normal course of its operations and therefore is exposed to credit risks. The Company's exposure to credit risk is influenced by general economic conditions, the default risk of the industry and the relative concentration of business. A majority of the Company's trade receivables are derived from sales to distributors and manufacturers who have been transacting with the Company for over five years. In monitoring credit risk, the Company considers industry, volume and aging trends, maturity and other relevant factors. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. Purchase limits established for certain accounts represent the maximum open balance permitted without approval from the CEO. The Company maintains reserves for potential credit losses relating to specific exposures, and any such losses to date have been within management's expectations. Net sales from one customer represent approximately 9% (2015: 8%) of the Group's total net sales in 2016. Five customers represented 31% (2015: 32%) of the Company's total net sales in 2016. The loss of any such customers or the delay or cancellation of any orders under certain high-volume contracts could have a significant impact on the Company.

The Company believes that its five significant customers are credit worthy and has not recorded a provision for credit risk relating to these accounts.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions.

The Company manages liquidity by maintaining adequate cash balances, having appropriate lines of credit available and monitoring cash requirements to meet expected operational expenses, including debt service and capital requirements. In addition, the Company maintains a facility permitting the Company an accordion feature of up to an additional US \$50,000 availability, upon the satisfaction of customary conditions for such features. At year end, the Company had cash of \$27,971 and unused revolving credit facilities of \$60,000 (2015: cash of \$11,961 and unused facility of \$60,000).

Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, share purchase loans, convertible promissory note, demand loan, accounts payable and accrued liabilities, interest rate swap, term loan and other debt and foreign exchange hedges. The fair values of cash and cash equivalents, accounts receivable, share purchase loans, convertible promissory note, demand loan, accounts payable and accrued liabilities, interest rate swap and foreign exchange hedges, as recorded in the consolidated balance sheets approximate their carrying amounts due to the short term maturities of these instruments. The fair value of the long term loan has been discounted using current market interest rates.

The carrying value and fair value are as follows:

December 31, 2016	Financial Instruments designated at fair value	Loans and Receivables (at amortized cost)	Other financial liabilities (at amortized cost)	Total carrying amount	Total fair value
<i>In thousands of US dollars</i>					
Cash and cash equivalents	27,971	-	-	27,971	27,971
Trade and other accounts receivable	-	42,430	-	42,430	42,430
Share Purchase loans	-	1,119	-	1,119	1,119
Convertible Promissory Note	-	-	-	-	-
Total financial assets	27,971	43,549	-	71,520	71,520
Interest rate swap	-	-	11	11	11
Foreign Exchange Hedge	-	-	58	58	58
Long term loan	-	-	73,195	73,195	74,169
Other liabilities	-	-	42,571	42,571	42,571
Total financial liabilities	-	-	115,835	115,835	116,809

Notes to CFS (cont'd)

December 31, 2015	Financial Instruments designated at fair value	Loans and Receivables (at amortized cost)	Other financial liabilities (at amortized cost)	Total carrying amount	Total fair value
<i>In thousands of US dollars</i>					
Cash and cash equivalents	11,961	-	-	11,961	11,961
Trade and other accounts receivable	-	42,148	-	42,148	42,148
Share Purchase loans	-	1,447	-	1,447	1,447
Convertible Promissory Note	-	275	-	275	275
Total financial assets	11,961	43,870	-	55,831	55,831
Interest rate swap	-	-	73	73	73
Foreign Exchange Hedge	-	-	-	-	-
Long term loan	-	-	76,849	76,849	77,912
Other liabilities	-	-	41,283	41,283	41,283
Total financial liabilities	-	-	118,205	118,205	119,268

The fair value of the share purchase loans, convertible promissory note and long term loan has been based on market interest rate (level 2) in 2015 and 2016. The Group has not disclosed the fair values for financial instruments (trade and other accounts receivable and other liabilities) as their carrying amounts approximate their fair values (level 3). There were no reclassifications between classes of financial assets and financial liabilities in 2015 and 2016. There were no transfers between levels of the fair value hierarchy in 2015 and 2016.

Capital Management

The Company has defined its capital as follows:

December 31

<i>In thousands of US dollars</i>	2016	2015
Cash and cash equivalents	(27,971)	(11,961)
Term loan and other debt	73,206	76,922
Net debt	45,235	64,961
Shareholders' equity	109,283	99,534
	154,518	164,495

The Company's business is cyclical and it experiences significant changes in cash flow over the business cycle. In addition, the Company's financial performance can be materially influenced by changes in the relative value of the Canadian and US dollar.

The Company's fundamental objective in managing capital is to ensure adequate liquidity and financial flexibility at all times, but particularly at the bottom of the business cycle and in a strong Canadian dollar environment. The Company constantly monitors and assesses its financial performance in order to ensure that its net debt levels are prudent, taking into account the anticipated direction of the business cycle. When reviewing financing decisions, the Company considers the impact of debt and equity financing on its existing and future shareholders.

The Company has established a \$60,000 committed revolving line of credit that provides liquidity and flexibility when capital markets are restricted.

Directors and officers currently own 25.6% or 5,909,010 shares of the Company. Each director is required to hold shares having a value equal to three times their annual retainer fee in order to align objectives with that of shareholders. There is no plan to extend availability of options beyond key management and senior employees. The Company has a dividend policy to provide an additional return to shareholders; the decision to pay dividends is reviewed quarterly.

During the fourth quarter of 2016, the Company commenced a normal course issuer bid ("NCIB") to purchase up to 1,385,837 of its common shares, representing approximately 10% of the Company's public float. The Company did not purchase any shares under its NCIB in 2016.

The Company's approach to capital management is expected to remain unchanged in 2017.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

NOTE 22 RESTRUCTURING

Subsequent to the acquisition of IRT, the Company decided to consolidate and integrate its manufacturing operations within the defense business. As a result, the Vermont operations were transferred to the Acton Vale, Quebec facility in 2015. A building addition was completed at the Acton Vale location and the Company transferred the machinery and equipment from the Vermont facility, to ensure a smooth transition and no impact to customer orders. Acton Vale fully assumed all production activity prior to the closing of the facility in Vermont, which was completed in November 2015.

As of December 31, 2016, a restructuring provision of \$155 (2015: \$360) is recorded on the statement of financial position in trade and other payables, including derivatives and \$nil (2015: \$1,134) is recorded on the statement of income as other expense.

NOTE 23 SUBSEQUENT EVENTS

On February 24, 2017, the Company entered into an interest rate swap agreement for a notional amount of \$35 million. Swap interest is calculated on a monthly basis on the difference between the floating USD LIBOR rate and the fixed rate of 1.69%. The swap agreement matures on December 10, 2020.

On March 16, 2017, the Board approved the payment and settlement of the executive supplemental plan. The employee benefits liability amount as recorded on the Statement of Financial Position as at December 31, 2016 for this plan was \$1,223.

NOTE 24 RECLASSIFICATION OF COMPARATIVE AMOUNTS

Certain prior year comparative figures have been reclassified to conform to the current period presentation.

Corporate Information

Board of Directors

Mary Matthews, CPA, CA, ICD.D. (1) (2) (3)
Toronto, Ontario

Brian A. Robbins (1)
President and CEO, Exco Technologies Limited
Aurora, Ontario

P. Grenville Schoch
Chairman and CEO, AirBoss of America Corp.
Aurora, Ontario

Alan J. D. Watson (2) (3)
Sydney, Australia

Robert Hagerman
Aurora, Ontario

Robert L. McLeish (1) (2) (3)
Aurora, Ontario
Port Carling, Ontario

Solicitors

Davies Ward Phillips & Vineberg LLP
Toronto, Ontario

Auditors

KPMG LLP
Toronto, Ontario

Transfer Agent And Registrar

Computershare Investor Services, Inc.
Toronto, Ontario

Stock Symbol Toronto Stock Exchange: BOS
Web Site Address: www.airbossofamerica.com
Email Address: info@airbossofamerica.com

Our Annual Meeting is Thursday, May 11, 2017
at 4:30 pm at Magna Golf Club,
14780 Leslie Street, Aurora, Ontario

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of Corporate Governance Committee

AirBoss of America Corp.

Offices

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P. G. (Gren) Schoch

President:
Lisa Swartzman

Chief Financial Officer:
Daniel Gagnon

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President:
Robert Dodd

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President:
Bradley Berghouse



AIRBOSS OF AMERICA CORP.

