

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

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

FORWARD-LOOKING INFORMATION

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

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

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

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

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

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

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

Non-IFRS Financial Measures

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

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

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

A reconciliation of net income to EBITDA is presented below:

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

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

NET SALES

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

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

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

Rubber Solutions

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

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

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

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

Engineered Products

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

MD&A (cont'd)

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

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

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

GROSS PROFIT

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

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

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

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

Rubber Solutions

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

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

Engineered Products

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

MD&A (cont'd)

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

OPERATING EXPENSES

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

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

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

Rubber Solutions

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

Engineered Products

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

Unallocated Corporate Costs

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

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

FINANCE COSTS

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

MD&A (cont'd)

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

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

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

INCOME TAX EXPENSE

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

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

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

NET INCOME AND EARNINGS PER SHARE

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

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

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

QUARTERLY INFORMATION

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

Items impacting comparability of quarters

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

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

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

Operating activities

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

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

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

Investing Activities

Property, Plant and Equipment

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

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

Intangible Assets

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

Financing activities

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

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

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

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

Government assistance

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

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

Dividends

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

Outstanding shares

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

TRANSACTIONS WITH RELATED PARTIES

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

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

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

SIGNIFICANT ACCOUNTING POLICIES

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

Recently adopted accounting standards and policies

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

IFRS 15, Revenue from Contracts with Customers

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

Revenue Recognition Policy

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

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

IFRS 9, Financial Instruments

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

(a) Financial assets and liabilities

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

Fair value through profit or loss (FVTPL):

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

Fair value through other comprehensive income (FVTOCI):

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

Amortized cost:

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

Other financial liabilities:

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

(b) Impairment of financial assets

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

(c) Derivative financial instruments

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

Recently issued accounting standards

The IASB issued the following amendments to existing standards:

IFRS 16, Leases

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

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

FINANCIAL INSTRUMENTS

Foreign exchange hedge

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

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

MD&A (cont'd)

Interest rate swap

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

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

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

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

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

OUTLOOK

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

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

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

November 7, 2018



Gren Schoch
Chairman and Chief Executive Officer



Daniel Gagnon
Chief Financial Officer