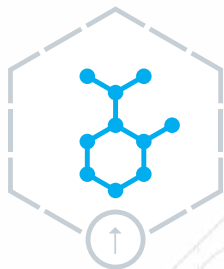


2017

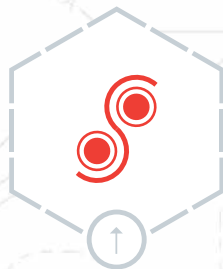


AIRBOSS OF AMERICA CORP.

Annual Report



RUBBER
SOLUTIONS



ENGINEERED
PRODUCTS



TRANSFORMING RUBBER INTO PROFIT

AirBoss of America Corp.

IS A GROUP OF COMPLEMENTARY BUSINESSES USING COMPOUNDING TECHNOLOGY AND ENGINEERING EXPERTISE TO TRANSFORM RUBBER INTO HIGHER-MARGIN SPECIALIZED COMPOUNDS AND FINISHED GOODS NEEDED IN CHALLENGING AND HAZARDOUS ENVIRONMENTS AND IN MANY INDUSTRIES.

WHO WE ARE:

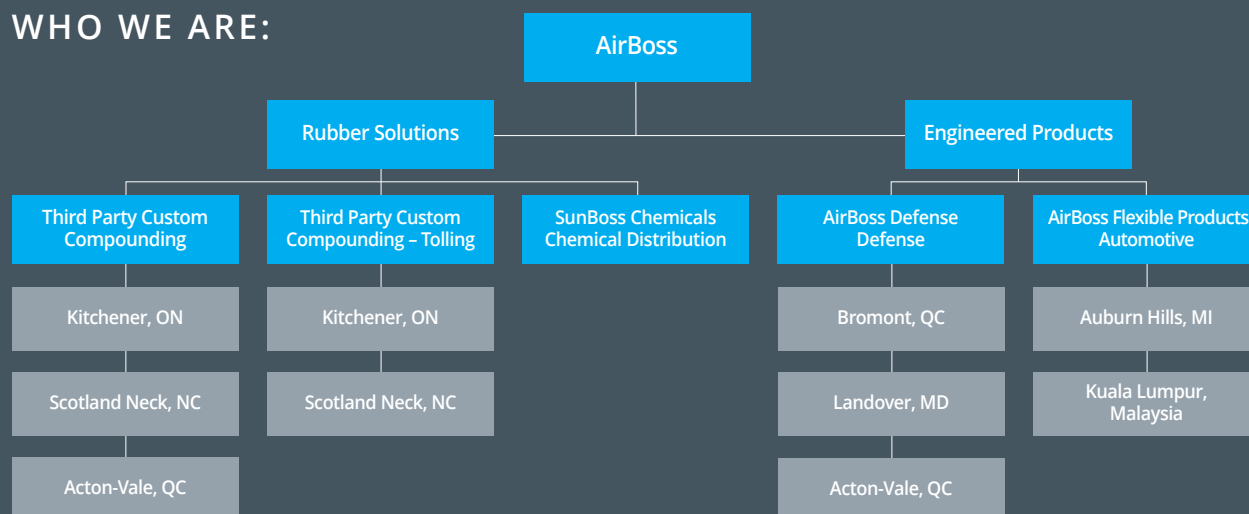
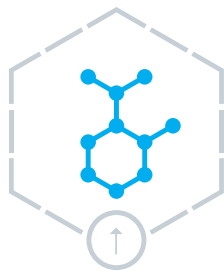


TABLE OF CONTENTS

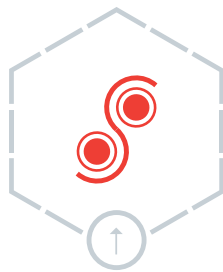
01	Operations
08	Letter to Shareholders
11	Management's Discussion and Analysis of Financial Condition and Results of Operations

25	Management's Responsibility for Financial Reporting
25	Auditors' Report to the Shareholders of AirBoss of America Corp.
26	Consolidated Financial Statements

30	Notes to Consolidated Financial Statements
56	Corporate Information



**RUBBER
SOLUTIONS**



**ENGINEERED
PRODUCTS**

Our companies are leaders in their fields. Rubber Solutions is one of North America's largest custom rubber compounders, mixing and converting pre-cured rubber into indispensable rubber-based formulations for dozens of industries. Engineered Products is a key supplier of automotive anti-vibration and noise-reduction solutions needed by automakers, and a leading global supplier of Chemical, Biological, Radiological, and Nuclear ("CBRN") military and first-response personal protective equipment and portable shelters.

In 2017, we continued to refine our processes, our structure, and our talent pool, to stimulate growth and improve our bottom line.



ALIGNING OUR REPORTING WITH OUR STRATEGY

In the second half of 2016, we began the centralization and consolidation of our sales, R&D, and business development organizations within our rubber compounding and industrial products businesses, forming Rubber Solutions.

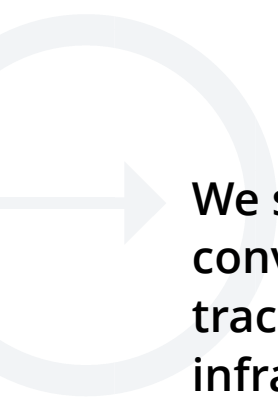
In the first quarter of 2017, we completed the full integration, providing a more unified offering of our compounding capabilities with the processes and services that transform compounded rubber. We are optimizing assets, geographies and, most importantly, technical and chemical expertise. Customers now work with a single point of contact.

The new reporting structure better reflects our operations and business strategy. Rubber Solutions is focused on pre-cured rubber. Engineered Products, which now includes our defense and automotive businesses, is focused on cured rubber, where rubber compounds are engineered into higher-value-added products.

RUBBER SOLUTIONS:

Integrating to Create Value

Rubber Solutions is a
leading provider
of customized rubber
compounds and calendered
and extruded materials.



We serve customers in conveyor belting, tire and track, mining, infrastructure, automotive, tire manufacturing, and other industries.

We manufacture in Kitchener, Ontario, Acton Vale, Quebec and Scotland Neck, North Carolina. Our facilities are highly automated, with precise controls that enable us to monitor consistency from batch to batch, enabling us to pull data for rapid troubleshooting and process optimization. Our scientific/technical staff is second to none in the industry.



HOW WE ARE DRIVING GROWTH:

Technical excellence, superior service, and consistent quality are our strengths. During 2017 we fortified our team and further refined our internal structure and operations. Customers now have a single point of contact from recipe development to commercialization, which means even better service and faster time to market. Our ongoing objective is to offer the most advanced science in rubber formulation so our customers can rely on best-in-class recipe development, unrivalled quality and consistency, and excellent customer service. In short, the highest value for their applications.



ENGINEERED PRODUCTS:

Best In Class

In the two markets served by
Engineered Products:

Automotive & Defense

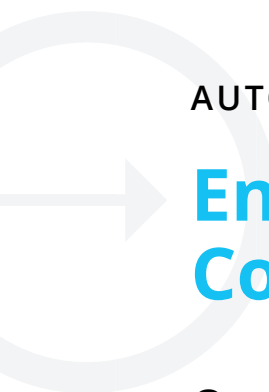
our rubber makes critical
differences in performance.



In cars and trucks, our anti-vibration
and noise-dampening products are
essential to a smooth, quiet ride.



In danger zones across the world, our overboots, gloves, and gas masks fit better, perform better, and are more comfortable for military personnel and first-responders.

AUTOMOTIVE BUSINESS:

Engineering Comfort

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

We design and manufacture hundreds of parts used in suspension, chassis and exhaust, powertrain and drive, and steering applications. With a complement of experienced engineers and advanced molding technologies, we are a highly capable solutions provider for automakers. Our consistent quality has won numerous industry awards and accreditations.

**HOW WE ARE DRIVING GROWTH:**

Automotive manufacturing is both demanding and cyclical. All suppliers to the industry must be geared for continual improvement. With engineering and rapid manufacturing expertise (in-house tool making, prototyping, and testing) we are able to create custom parts faster at a competitive cost with low scrap rates. But we intend to do more.

In 2017, our senior management team was rebuilt, with new talent added in marketing and business development, engineering, and operations. Operational efficiency and data flow is being upgraded to help our customers meet their business targets.



DEFENSE BUSINESS:

Market-Leading Innovations

Military and first-responder forces across the world rely on our defense business for personal protective equipment.

We design and manufacture world-class CBRN gas masks, filters, powered air purifying respirators (PAPRs), gloves, and over boots, as well as individual isolation systems, fully-integrated and scalable decontamination shelter systems, command and control/living/medical shelters, and extreme cold weather footwear. Our Canadian-based injection molding operations specialize in tight tolerance irregular shapes and 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.



HOW WE ARE DRIVING GROWTH:

We have served the military for more than 40 years. We understand global government procurement processes and project management, and our scientists work closely with the Canadian and U.S. militaries on new product development. A reality of the industry is cyclical demand based on military spending and long-term contracts. In 2017, defense benefited from higher global military budgetary spending as well as an increase in demand as a result of uncertain geo-political events. Our ongoing goal, as revenues continue to grow, is refinement of operations to further increase profitability while we continue developing complementary products.

To Our Shareholders

It was a challenging year. Earnings remained solid, however did not meet our expectations. We have confidence we are taking the right steps to make all our businesses significantly more profitable in the years to come.

We made progress in 2017 in all our businesses. Financially, we ended the year with 8.3% growth in net sales to \$289.9 million (compared to \$267.6 million in 2016), slightly lower EBITDA of \$27.7 million (compared to \$29.6 million in 2016), and a strong balance sheet.

Our primary focus as we enter 2018 is greater operational efficiency. Under a new Chief Operating Officer, Chris Bitsakakis, we are implementing the AirBoss Operating System. It is nothing short of ensuring that every operational detail in all our businesses links to greater customer satisfaction and profitability.

Rubber Solutions: Increasing Our Competitive Advantages

Net sales were \$125.4 million in Rubber Solutions, up by \$21.4 million or 20.5%, influenced largely by raw material price volatility as well as an increase in volume (measured in pounds shipped) of approximately 7.4% compared to 2016. While volumes remain lower than they were five years ago, earnings are up significantly. This is due to a broader client base and an improved product mix in higher-margin specialty polymers.

During 2017, we completed the integration of our former Rubber Compounding segment with our industrial products business. The new structure better reflects our strategic focus on increasing and diversifying our portfolio and maintaining our market leadership as a rubber-based solutions provider. We are optimizing assets, geographies, and technical and chemical expertise.

Customer speed to market is of highest priority. Now, in all ways, we believe we will be better integrated and our customers better served – from a single point of contact to technical and polymer expertise to coordinating our Canadian and U.S. mixing assets to assisting with the optimization of manufacturing performance at customers' facilities.

During the year, Rubber Solutions won a large North American program based on these newly integrated capabilities. We see much potential going forward.

Engineered Products

Our defense and automotive divisions are now reported as Engineered Products. Net sales for the new segment were \$164.4 million, essentially flat when compared to 2016 as a substantial increase in net sales in our defense business was offset by a similar decline in our automotive business.

Automotive Business: A Major Investment In Talent

The decline in our automotive business was the result of two large programs ending in late 2016 and the first quarter of 2017 without replacement programs coming online. One was re-sourced offshore. The other specified a change to materials we don't manufacture.

We have responded decisively. During 2017, we added new talent to the senior management team in marketing, business development, engineering, and operations. Our team is driving a concentrated effort to ensure even higher levels of rapid-response engineering and manufacturing to meet escalating industry standards while improving profitability.

We are confident performance will improve and the automotive business will win a meaningful share of new platforms coming on-stream for the 2019/2020 model years and beyond. However, we also expect it will take time to see the impact on our top and bottom lines.

Defense Business: An Excellent Year and Another Ahead

Net sales grew dramatically in our defense business as we continued to execute on orders for protective gloves and began full-rate production on a filter award. Additionally, there was strong demand for our extreme cold weather (ECW) footwear and shelter product lines. We received our first order from a large foreign military for our new Low Burden Mask (LBM) and have indications that large tenders for the mask will be awarded in 2018.

Our next-generation fire-retardant glove, well into development, has attracted the interest of counter-terrorism organizations in addition to our traditional military customers. We continue to invest in our product development pipeline.

Quality, comfort, and protection distinguish our products. In all categories – CBRN protective gas masks, gloves, over boots, extreme cold weather footwear, filters, PAPRs, and shelters – we believe we manufacture the best products of their kind with the highest levels of protection and durability.

OUTLOOK

Our goal is to increase earnings through greater operational efficiencies, capacity utilization, and aggressive sales strategies by focusing on the following initiatives:

Integrating Operations

Our most important operational strategic initiative for 2018 is the integration of all operations under our new Chief Operating Officer. His mandate is to accelerate the execution of our strategic initiatives at the operational level, leveraging best practices throughout our facilities by methodically analyzing and reworking our existing processes and implementing our AirBoss Operating System (Safety, Quality, Delivery, Productivity).

Measurable Data

With added process controls and real-time metrics, we aim to continue to improve response times, production quality and waste reduction while being able to make smarter, data-driven decisions.

Acquisitions

We are always seeking further acquisitions that expand our rubber mixing capacities or improve our ability to transform rubber polymers into finished products, whether complementary to our existing business or in other rubber-intensive sectors. We have the balance sheet and credit facilities to act when the right opportunity arises.

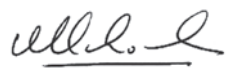
Capacity Utilization

All our businesses have sufficient capacity to grow without significant capital expenditures for the foreseeable future. We intend to fill that capacity profitably using our enhanced sales and marketing talent.

IN CLOSING

Our businesses are diverse and our manufacturing facilities geographically dispersed. As we've acquired new operations and integrated them, what has become clear is the need for a more sophisticated operating system. With new senior talent and added investment in information technology, we are now implementing that system. It will allow us to operate all our plants at a consistently high level, better allocating resources where and when they are needed, working around roadblocks, and making strategic decisions with the right information, knowing implementation is assured.

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 14, 2018 and should be read in conjunction with the Consolidated Financial Statements and Notes for the year ended December 31, 2017 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 US dollars)**

- Quarterly EBITDA improved 59% to \$6.8 million
- Quarterly earnings per share of \$0.16 compared to \$0.06 in the same period in 2016
- Earnings per share of \$0.55 and \$0.54 based on basic and diluted shares outstanding, respectively
- Quarterly dividend paid of C\$0.07 per common share for a total annual payment of C\$0.28, a 9.8% annual increase over 2016

Selected Financial Information

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

For years ended December 31	2017	2016	2015
Financial results:			
Net sales	289,855	267,628	304,909
Net income	12,632	13,822	13,282
Net income per share			
– Basic	0.55	0.60	0.58
– Diluted	0.54	0.59	0.56
EBITDA ¹	27,653	29,646	29,949
Net cash from operating activities	5,811	29,740	22,961
Dividends declared per share	0.28	0.255	0.24
Capital expenditures	7,294	6,402	10,031
Financial position:			
Total assets	225,948	225,118	217,739
Term loan and other debt	69,257	73,206	76,922
Shareholders' equity	117,161	109,283	99,534
Outstanding shares	23,091,113	23,074,183	23,021,850
<i>*23,088,913 at March 14, 2018</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

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:

<i>In thousands of US dollars</i>	2017	2016
Net Income	12,632	13,822
Finance costs	2,567	2,830
Depreciation and amortization of intangible assets	10,684	10,344
Income tax expense	1,770	2,650
EBITDA	27,653	29,646

REPORTING SEGMENT CHANGES

Beginning with the first quarter of 2017, the Company realigned the organizational and governance structures of its business lines to align them more closely with the nature of the Company's operations. Such realignment gave rise to changes in how the Company presents information for financial reporting and management decision-making purposes and resulted in a change in the Company's reporting segments. The industrial products business was combined with rubber compounding to form a new Rubber Solutions reporting segment and the automotive and defense businesses were combined to form a new Engineered Products reporting segment. All segmented financial information in this MD&A reflects this new reporting segment structure.

RESULTS OF OPERATIONS – For years ended December 31, 2017 compared to 2016

NET SALES

Consolidated net sales for the year ended December 31, 2017 increased 8.3% to \$289,855, compared to 2016 and were up in both segments. In the Engineered Products segment, net sales were higher compared to 2016 in the defense business and lower in the automotive business, for reasons outlined below.

<i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	Total
Net Sales	2017	125,413	164,442	289,855
	2016	104,037	163,591	267,628
Increase \$		21,376	851	22,227
Increase %		20.5	0.5	8.3

Rubber Solutions

Net sales for the year ended December 31, 2017 increased 20.5%, to \$125,413, from \$104,037 in 2016. The growth in net sales was partly due to an increase of approximately 20.5% in raw material costs that resulted in price increases to customers. In addition, volume (measured in pounds shipped) increased 7.4% compared to 2016.

The increase in net sales was reflected across the majority of sectors, primarily off the road ("OTR"), track, infrastructure, oil and gas and mining. These increases were partly offset by softness in the solid tire and chemical sector.

Tolling volumes for the year ended December 31, 2017 increased modestly, by 1.6%, compared to 2016. The increase was in niche tolling applications and was partly offset by a decrease in conventional tolling. Tolling rates, on the other hand, increased 25.0% over 2016; the increase was predominately in niche tolling applications. Non-tolling volumes for the year ended December 31, 2017 also increased compared to 2016, up 11.1%.

Engineered Products

Net sales in the Engineered Products segment increased 0.5%, to \$164,442, from \$163,591 in 2016. Increased net sales in the defense business were partly offset by decreases in the automotive business compared to 2016.

RESULTS OF OPERATIONS – For years ended December 31, 2017 compared to 2016

Net sales for the year ended December 31, 2017 in the automotive business decreased 6.6%, to \$131,773, from \$141,102 in 2016. The decrease was largely in the bushings and boot product lines, where certain customer specification changes in the first half of 2017, including switching from rubber to plastic components, resulted in reduced net sales for certain parts. In addition, the previously disclosed completion of a large muffler hangar program in the second half of 2016 further contributed to the decrease when compared to 2016. These decreases were partly offset by increased demand in dampers and induction bonding applications in the light truck sector.

Net sales for the year ended December 31, 2017 in the defense business increased 45.3%, to \$32,669, from \$22,488 in 2016. The increased net sales, on a comparable basis, was primarily in the bunny boot, extreme cold weather boots ("ECW"), shelter, filters, and glove product lines. The increase in net sales was partially due to the commencement of shipments in the second half of 2017 under a contract which, as previously disclosed, was delayed in 2016 as a result of customer-specific changes. These higher net sales were partly offset by a decrease in over-boots, following the completion of a contract with final shipments in the first quarter of 2016, and in the powered air purifying respirators ("PAPRS") product line.

GROSS PROFIT

For the year ended December 31, 2017, consolidated gross profit was \$44,520 (15.4% of net sales), down \$2,076 compared to \$46,596 (17.4% of net sales) in 2016. The decrease in gross profit was principally as a result of a decline in net sales in the automotive business in the Engineered Products segment, which more than offset increases in the defense business. In addition, the impact of higher raw material prices, discussed below, in the Rubber Solutions segment further compressed gross profits in 2017 compared to last year.

<i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	Total
Gross Profit	2017	19,603	24,917	44,520
	2016	20,171	26,425	46,596
(Decrease) \$		(568)	(1,508)	(2,076)
% net of sales	2017	15.6	15.2	15.4
	2016	19.4	16.2	17.4

Rubber Solutions

For the year ended December 31, 2017, gross profit for Rubber Solutions was \$19,603 (15.6% of sales), down \$568 compared to \$20,171 (19.4% of sales) in 2016. The decrease in gross profit and gross profit as a percentage of sales was largely due to higher raw material costs (which resulted in higher selling prices), increased raw material price volatility (which impacted the Company's timing and ability to fully align input cost increases and customer price increases) and, in some cases, availability of certain specialty raw materials. The decrease was partly offset by rectification of the negative productivity impacts experienced in the first half of 2016 that related to the 2015 transfer of production from Vermont to Acton Vale, Quebec.

Engineered Products

Gross profit for the year ended December 31, 2017 in the Engineered Products segment was \$24,917 (15.2% of sales), down \$1,508 compared to \$26,425 (16.2% of sales) in 2016. The decrease in gross profit and gross profit as a percentage of sales was principally due to lower net sales in the automotive business that were partly offset by higher net sales in the defense business, for reasons discussed above.

OPERATING EXPENSES

Consolidated operating expenses for the year ended December 31, 2017 increased \$257, to \$27,551, compared to 2016. The increase was principally due to higher administrative costs partly offset by a larger foreign exchange gain booked in 2017, compared to 2016. In addition, lower product research costs and the write-off of the promissory note in 2016, further offset these increases. As a percentage of net sales, operating expenses for the year ended December 31, 2017 decreased to 9.5% from 10.2% in 2016.

<i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	Corporate	Total
Operating Expenses	2017	8,153	16,918	2,480	27,551
	2016	7,766	16,744	2,784	27,294
Increase (decrease) \$		387	174	(304)	257
% net of sales	2017	6.5	10.3	N/A	9.5
	2016	7.5	10.2	N/A	10.2

Rubber Solutions

Rubber Solutions' operating expenses for the year ended December 31, 2017 increased 5.0%, to \$8,153, compared to \$7,766 in 2016. The increase was principally due to higher administrative costs of \$430 and product research costs of \$85, partly offset by a foreign exchange gain in 2017, compared to a foreign exchange loss in 2016, for a net change of \$128.

Engineered Products

Engineered Product's operating expenses for the year ended December 31, 2017 increased \$174, compared to 2016. The increase was largely due to higher administrative costs of \$451, which was partially offset by lower product research costs of \$351, due to a combination of the capitalization of development stage costs and lower spending.

MD&A (cont'd)

RESULTS OF OPERATIONS – For years ended December 31, 2017 compared to 2016

Unallocated Corporate Costs

Unallocated corporate costs decreased by \$304 from 2016, primarily due to a larger foreign exchange gain of \$196 in 2017, partially offset by higher administrative costs of \$167, compared to the prior year. In addition, 2016 included the write-off of the convertible promissory note of \$275.

FINANCE COST

<i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	Corporate	Total
Finance cost	2017	4,733	–	(2,166)	2,567
	2016	4,745	(3)	(1,912)	2,830
Increase (decrease) \$		(12)	3	(254)	(263)
% of net sales	2017	3.8	0.0	N/A	0.9
	2016	4.6	0.0	N/A	1.1

Finance costs in 2017 were \$2,567 (2016: \$2,830). The decrease reflected the continued reduction of term loan balances which was partially offset by higher interest rates.

INCOME TAX EXPENSE

The Company recorded an income tax expense of \$1,770 (2016: \$2,650) or an effective income tax rate of 12.28% (16.09% in 2016). The statutory rate in Canada in 2017 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	
	2017	2016	2017	2016
Expected statutory rate	3,817	4,365	26.50%	26.50%
Foreign rate differential	(140)	69	(0.97%)	0.42%
Effect of permanent differences	(902)	(1,232)	(6.26%)	(7.48%)
Change in tax rates and new legislation	(956)	(310)	(6.64%)	(1.88%)
Filing differences	(62)	(256)	(0.43%)	(1.55%)
Other	13	14	0.08%	0.08%
Actual tax	1,770	2,650	12.28%	16.09%

NET INCOME AND EARNINGS PER SHARE

Net income in 2017 amounted to \$12,632, compared to \$13,822 in 2016. The basic and fully diluted net earnings per share were \$0.55 (2016: \$0.60) and \$0.54 (2016: \$0.59) based on basic and fully diluted shares outstanding of 23,082,270 (2016: 23,061,534) and 23,473,897 (2016: 23,555,978), respectively. The decrease in net income and earnings per share was due to lower consolidated gross profit, and higher operating expenses, compared to 2016, as discussed above.

QUARTERLY INFORMATION

<i>In thousands of US dollars</i>			Net income per share	
Quarter Ended	Net Sales	Net Income	Basic	Diluted
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 30, 2017	69,927	2,875	0.12	0.12
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

Items impacting comparability of quarters

- There were no items impacting comparability of 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
- 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.

Recast reporting segment information

Beginning with fiscal 2017, the Company made changes to its segmented financial reporting to reflect adjustments made in the organizational and governance structures of certain business units, which realign the business units more closely with the nature of the Company's operations. As announced on May 2nd, 2017, the Company now discloses information for two reporting segments, Rubber Solutions and Engineered Products, in addition to Unallocated Corporate Costs.

The Rubber Solutions segment consists of the former rubber compounding segment plus the Company's industrial products business line (previously included in the Engineered Products segment). The reorganized Engineered Products segment combines the defense business with the automotive products business that was previously a separate reporting segment. The structure of these two new business segments better reflects the Company's strategic focus on increasing and diversifying its portfolio of finished rubber products, while maintaining market leadership as a rubber-based solutions provider.

Information about reportable segments Three months ended March 31	Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
<i>In thousands of US dollars</i>	2016	2015	2016	2015	2016	2015	2016	2015
Segment net sales	34,041	45,022	42,836	38,895	-	-	76,877	83,917
Inter-segment sales	(6,368)	(7,045)	(42)	(16)	-	-	(6,410)	(7,061)
External net sales	27,673	37,977	42,794	38,879	-	-	70,467	76,856
Depreciation and amortization includes loss on disposal of property, plant and equipment	1,263	1,313	1,300	848	12	8	2,575	2,169
Finance cost	1,154	683	(1)	(1)	(279)	(172)	874	510
Reportable segment profit before income tax	2,236	2,592	3,533	3,445	12	(1,658)	5,781	4,379
Income tax expense / (recovery)	1,163	1,594	661	289	(384)	(684)	1,440	1,199
Net Income (loss)	1,073	998	2,872	3,156	396	(974)	4,341	3,180
Reportable segment assets ¹	82,701	86,829	126,981	91,383	7,084	5,364	216,766	183,576
Reportable segment liabilities ¹	16,798	18,867	13,590	13,896	83,500	58,540	113,888	91,303
Capital expenditures ¹	1,452	548	1,218	595	27	84	2,697	1,227

¹ Comparative figures as at March 31, 2015.

Information about reportable segments Three months ended June 30	Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
<i>In thousands of US dollars</i>	2016	2015	2016	2015	2016	2015	2016	2015
Segment net sales	31,675	42,231	41,685	41,496	-	-	73,360	83,727
Inter-segment sales	(5,760)	(6,661)	(145)	(102)	-	-	(5,905)	(6,763)
External net sales	25,915	35,570	41,540	41,394	-	-	67,455	76,964
Depreciation and amortization includes loss on disposal of property, plant and equipment	1,211	1,290	1,321	832	11	9	2,543	2,131
Finance cost	1,204	676	(1)	-	(570)	(270)	633	406
Reportable segment profit before income tax	2,356	4,076	3,595	4,224	(293)	(4,993)	5,658	3,307
Income tax expense / (recovery)	1,056	2,218	135	213	(498)	(1,502)	693	929
Net Income (loss)	1,300	1,858	3,460	4,011	205	(3,491)	4,965	2,378
Reportable segment assets ¹	77,085	85,734	124,971	89,980	15,276	15,131	217,332	190,845
Reportable segment liabilities ¹	14,705	21,712	13,069	14,139	82,733	61,260	110,507	97,111
Capital expenditures ¹	(509)	834	1,002	1,026	-	7	494	1,867

¹ Comparative figures as at June 30, 2015.

AirBoss of America Corp.

MD&A (cont'd)

Information about reportable segments Three months ended September 30	Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
<i>In thousands of US dollars</i>	2016	2015	2016	2015	2016	2015	2016	2015
Segment net sales	31,592	38,218	40,889	46,647	-	-	72,481	84,865
Inter-segment sales	(5,786)	(6,295)	(29)	(1,057)	-	-	(5,815)	(7,352)
External net sales	25,806	31,923	40,860	45,590	-	-	66,666	77,513
Depreciation and amortization includes loss on disposal of property, plant and equipment	1,225	1,310	1,325	1,351	10	9	2,560	2,670
Finance cost	1,193	1,055	-	14	(523)	(513)	670	556
Reportable segment profit before income tax	1,744	2,324	2,521	3,664	(225)	(811)	4,040	5,177
Income tax expense / (recovery)	(558)	758	1,769	622	(286)	(239)	925	1,141
Net Income (loss)	2,302	1,566	752	3,042	61	(572)	3,115	4,036
Reportable segment assets ¹	79,189	81,162	123,159	130,586	18,439	11,886	220,787	223,634
Reportable segment liabilities ¹	16,597	19,567	14,162	17,126	81,128	90,208	111,887	126,901
Capital expenditures ¹	863	1,496	496	517	-	5	1,359	2,018

¹ Comparative figures as at September 30, 2015.

Information about reportable segments Three months ended December 31	Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
<i>In thousands of US dollars</i>	2016	2015	2016	2015	2016	2015	2016	2015
Segment net sales	30,210	33,226	38,462	46,955	-	-	68,672	80,181
Inter-segment sales	(5,566)	(6,032)	(66)	(573)	-	-	(5,632)	(6,605)
External net sales	24,644	27,194	38,396	46,382	-	-	63,040	73,576
Depreciation and amortization includes loss on disposal of property, plant and equipment	1,304	1,297	1,351	1,317	10	11	2,665	2,625
Finance cost	1,194	1,176	(1)	3	(540)	(355)	653	824
Reportable segment profit before income tax	1,326	1,748	34	3,034	(367)	413	993	5,195
Income tax expense / (recovery)	227	1,752	(127)	269	(508)	(514)	(408)	1,507
Net Income (loss)	1,099	(4)	161	2,765	141	927	1,401	3,688
Reportable segment assets ¹	84,933	78,444	120,422	127,003	19,763	12,292	225,118	217,739
Reportable segment liabilities ¹	20,085	19,592	15,467	14,643	80,283	83,970	115,835	118,205
Capital expenditures ¹	1,230	3,281	595	1,562	27	76	1,852	4,919

¹ Comparative figures as at December 31, 2015.

Fourth Quarter 2017 Results

NET SALES

Consolidated net sales for the three month period ended December 31, 2017 increased 17.7%, to \$74,214, from \$63,040 for the comparable period in 2016, with increases in both segments. In the Engineered Products segment, net sales were higher in the defense business and lower in the automotive business for the three month period ended December 31, 2017 compared to 2016 for reasons outlined below.

MD&A (cont'd)

Rubber Solutions

Net sales for the three month period ended December 31, 2017 in Rubber Solutions increased 26.7%, to \$31,235, from \$24,643 for the comparable period in 2016. The increase in net sales was due to an increase of approximately 24.2% in raw material costs that resulted in price increases to customers. Volume (measured in pounds shipped) also contributed to the increase and was up 15.2%, compared to the same period in 2016.

The increase in net sales for the three month period ended December 31, 2017 was primarily in OTR, conveyor belt, track and mining which were partly offset by softness in the solid tire and the chemical sectors.

Tolling volumes for the three month period ended December 31, 2017 increased 52.4% compared to the same period in 2016, with increases in both niche and conventional applications. Tolling rates increased 46.1% compared to the same period in 2016, with increases in niche applications offsetting lower rates in conventional tolling. Non-tolling volumes increased 10.8% for the three month period ended December 31, 2017 compared to the same period in 2016.

Engineered Products

Engineered Products net sales for the three month period ended December 31, 2017 increased by 11.9% to \$42,979 compared to the same period in 2016. A \$6,593 increase in net sales for the defense business was partially offset by a \$2,011 decrease in the automotive business.

The increase in the defense business for the three month period ended December 31, 2017, compared to the same period in 2016, was principally in the filters, bunny boot and shelters product lines. The increase in net sales was partially due to the commencement of shipments in the second half of 2017 under a contract which, as previously disclosed, was delayed in 2016 as a result of customer-specific changes. The increase in the defense business was partly offset by lower net sales in the automotive business, due mainly to the bushings, boot and muffler hanger product lines, for the reasons discussed above. The lower net sales in these product lines were partly offset by increases in damper applications.

GROSS PROFIT

Consolidated gross profit for the three month period ended December 31, 2017 increased to \$11,562 (15.6% of net sales) from \$8,881 (14.1% of net sales) compared to the same period in 2016. The increase in gross profit and gross profit as a percentage of sales was principally as a result higher net sales in the defense business in the Engineered Products segment, which offset the lower sales in the automotive business, for reasons discussed above.

Rubber Solutions

For the three month period ended December 31, 2017, gross profit at Rubber Solutions was \$5,038 (16.1% of net sales), compared to \$4,510 (18.3% of net sales) in 2016. The increase in gross profit was due to higher volume. The decrease in gross profit as a percentage of net sales reflects the raw material price challenges discussed above.

Engineered Products

Gross profit for the three month period ended December 31, 2017 at Engineered Products grew by \$2,153 to \$6,524 (15.2% of net sales) compared to \$4,371 (11.4% of net sales) in 2016. The increase was mainly due to the increase in net sales in the defense business which was partially offset by lower net sales in the automotive business, for the reasons discussed above.

OPERATING EXPENSES

Consolidated operating expenses for the three month period ended December 31, 2017 increased by \$129, compared to same period in 2016. This was primarily due to administrative costs which increased by \$312 and product research costs which were higher by \$95. These increases were partly offset by the write-off of the convertible promissory note of \$275, which occurred in 2016.

INCOME TAX EXPENSE

Tax expense increased by \$362 as a result of higher profits during the quarter compared to the same period in 2016.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its 2018 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 (2016: \$60,000). No amount was drawn against this facility at December 31, 2017.

For the period ended December 31, 2017, \$5,811 (2016: \$29,740) of cash was provided by operations, \$7,294 (2016: \$5,614) was used for investing activities and \$8,691 (2016: \$8,091) was used in financing activities. Cash and cash equivalents decreased by \$10,223 from \$27,971 to \$17,748.

Operating activities

The factors contributing to the changes in cash from operating activities compared to 2016 include:

- lower gross profit for the year for the reasons discussed above, which were partly offset by lower income tax expense; and
- cash used for working capital was \$17,126 (2016: \$3,350 provided by) for the twelve month period ended December 31, 2017.

Accounts receivable increased by \$9,096 primarily due to higher net sales. 77% of outstanding receivables are within credit terms, which is consistent with December 31, 2016 balances.

Inventory increased by \$5,911; of which \$2,838 was at Rubber Solutions principally due to rising material costs, and \$3,073 was at Engineered Products to support higher demand in the defense business.

Prepaid expenses decreased by \$713 as deposits on long lead time vendors were applied.

Accounts payable decreased by \$2,243 principally due to timing of payments and the payment of the pension liability to an executive of \$1,247.

Income tax paid was \$2,600, \$825 higher than taxes paid in 2016, primarily due to higher tax installment payments in 2017.

The Company paid interest of \$2,536 in 2017 (2016: \$2,334).

MD&A (cont'd)

Investing Activities

Property, Plant and Equipment

In 2017, Rubber Solutions made total investments of \$3,357. This included: a) investments in Kitchener consisting of \$2,085 to replace capital and manufacturing equipment and \$235 for operational efficiencies, growth and health and safety initiatives; b) investments in Acton Vale of \$743 to support growth and \$226 to replace capital and manufacturing equipment; and c) investments of \$68 in North Carolina's equipment to sustain operations.

Investments in Engineered Products totaled \$2,085. This included: a) investments in Auburn Hills consisting of \$1,332 to replace existing machinery and upgrade system requirements and \$207 for growth initiatives; b) \$268 was invested in Landover for growth support initiatives, and \$58 to replace machinery and equipment and conduct product research; and c) \$172 was invested in Acton Vale's property, plant and equipment to replace capital and manufacturing equipment and \$48 to support growth.

Included in the amounts invested in Acton Vale were provincial tax credits which decreased the cost of certain capital assets by \$165. Corporate invested \$98 to support growth.

Intangible assets

The Company invested \$1,754 in software to purchase a new ERP system, capitalized certain eligible product development costs and for a new financial reporting tool.

Financing activities

During the fourth quarter of 2017, certain changes in the calculations for the covenant terms in the credit facilities were amended on a prospective basis.

The Company's current credit facilities are 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.

Deferred financing fees of \$98, in regards to the amended agreement (dated December 18, 2017) were incurred.

The fees are being amortized over 5 years and \$262 (2016: \$265) has been amortized and is included in finance costs.

Interest expense in 2017 on the term loans was \$2,097 (2016: \$2,239).

Commitments and contractual obligations

The Company's contractual obligations as at December 31, 2017 are summarized below:

	Payments Due In						
	2018	2019	2020	2021	2022	Thereafter	Total
Term loan and other debt	6,398	3,761	60,000	-	-	-	70,159
Operating leases - equipment	98	23	8	-	-	-	129
Operating leases - premises	1,785	1,605	644	615	143	143	4,935
Purchase obligations	7,512	-	-	-	-	-	7,512
Total	15,793	5,389	60,652	615	143	143	82,735

The Company has inventory purchase commitments at the end of 2017 for its Rubber Solutions and Engineered Products segments of \$5,382 and \$2,130 (2016: \$718 and \$nil) respectively. The increase in Rubber Solutions was a result of the Company's efforts to secure raw materials in an environment of rising prices and/or constrained global supply. The increase in Engineered Products was due to increase demand in certain product lines in the defense business.

Government assistance

During 2017, Rubber Solutions recognized grants of \$106 (2016: \$130); Engineered Products recognized grants of \$nil (2016: \$13).

Scientific research and investment tax credits of \$335 (2016: \$617) were recognized in 2017; research and development costs were reduced accordingly. In addition, \$165 (2016: \$1,272) was recognized as a reduction to capital assets in respect of provincial tax credits.

Dividends

A quarterly dividend of \$0.07 per share was declared on November 14, 2017 and paid on January 15, 2018. Total dividends declared during 2017 were \$0.28 per common share compared to \$0.255 per common share in 2016.

Outstanding shares

As at December 31, 2017 the Company had 23,091,113 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 \$149 (2016: \$136).

During the year, the Company paid fees for the use of a facility in South Carolina of approximately \$14 (2016: \$21) 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 the automotive business for its office and manufacturing facilities (2016: \$1,170). 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, COO and divisional presidents. The compensation expense to key management for employee services is shown below:

December 31

In thousands of US dollars

	2017	2016
Salaries and other short term benefits	2,397	2,217
Pension/Post-employment benefits	24	45
Share-based payment expense	839	775
	3,260	3,037

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.

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

Key management and directors own 25.0% 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 former Deputy Chairman of the Company is the chairman. This note was convertible into an equity interest under the following conditions: (1) if the company completed "qualified financing" raising \$1 million in gross proceeds (excluding the Company's loan); (2) if no "qualified financing" took place prior to the maturity date, the Company had the option to convert into common stock within 60 days prior to the maturity date of the note. By the end of 2016, the entire promissory note was written off, subsequently the Company, in which the investment was made, was dissolved.

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 2017 and 2016.

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. During the fourth quarter of 2017, the outstanding share purchase loan of \$200 (CAD \$250) was repaid in full by the former Senior Executive Vice President, Corporate. The loan to the CFO is 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, 122,000 shares of the Company having a fair value of \$1,035 were pledged as collateral on these three loans. At December 31, 2017, the promissory notes of \$997, including accrued interest of \$11, were included in other assets. During the year, interest of \$11 (2016 \$12) 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 May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers." The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has completed its evaluation and concluded the impact of IFRS 15 on its consolidated financial statements was immaterial on opening retained earnings as at January 1, 2018.

In July 2014, the IASB finalized IFRS 9, "Financial Instruments." The new standard introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard that aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide for more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. This standard is effective for annual periods beginning on or after January 1, 2018. The Company does not expect the transition to IFRS 9 to have a material impact on its consolidated financial statements.

In January 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.

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 2017.

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, 2017, a reserve for impaired inventory in Rubber Solutions represents \$1,509 (2016: \$898). Engineered Products maintains a provision of \$125 (2016: \$108) in the defense business and \$706 (2016: \$180) for the automotive business.

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 2017 or 2016.

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 2017 and 2016.

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 14 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, 2017, the Company had contracts to sell US \$13,272 in 2018 for CAD \$16,966. The fair value of these contracts, representing a gain of \$252, was recorded in 2017 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 a gain.

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. This agreement was entered into as the previous interest rate swap entered into in 2014, for a notional amount of \$22.5 million exchanging a floating rate of USD LIBOR for a fixed rate of 0.98%, expired on February 27, 2017.

During 2017, the net interest expense of the swap agreement was \$195 and \$195 was paid (2016: \$125 and \$125 was paid).

For the year ended December 31, 2017, the fair value of this agreement, representing a gain of \$275, (2016: loss of \$11) 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 Solutions 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 Engineered Products 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 and a significant decline in defense budget and spending from current levels could have a material adverse effect on the profitability of our Engineered Product segment.

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% (2016: 9%) of consolidated net sales in 2017. Five customers represented 29% (2016: 31%) of consolidated net sales in 2017. 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 or supplies, increase our costs and decrease our 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	
	2017	2016
Natural and synthetic rubber	(2.66)	(1.60)
Carbon black	(1.17)	(0.72)
EPDM	(0.78)	(0.58)
Silicone	(0.83)	(0.90)
	(5.44)	(3.80)

MD&A (cont'd)

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, including having a direct local presence in international markets where the Company does not, 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, the 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 the rubber compounding and automotive business, 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 borrowings 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-flows. 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	
	2017	2016
Sales (1)	(2.8)	(2.8)
Purchases (2)	4.8	4.4

(1) Based upon Canadian dollar-denominated sales in 2017.

(2) Based upon Canadian dollar-denominated purchases and expenses in 2017.

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 liable for 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 regulations. 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 such 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

Our rubber compounding facilities have an annual capacity to process 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, the Company expects that it can be readily sourced in the market, however any material failure of our equipment or inability to purchase additional required equipment could have a material adverse effect on the Company.

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 acquisitions 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, 2017, 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, 2017 and believe the design and effectiveness of the internal controls to be effective.

OUTLOOK

The Company enters 2018 with a strengthened senior management team across all its businesses which complements an experienced workforce, both of which are committed to growth, quality, customer satisfaction and profitability. Management's focus in 2018 is to continue to diversify the Company's product offerings and customer base and refine business processes and operating systems to further enhance the platform, with the objective of stimulating growth and sustainably improving bottom-line results. With its strong balance sheet position, the Company is well positioned to continue making the required investments in resources, technology and capital expenditures to support innovation, improve operational efficiencies, while maintaining the capacity to execute on potential acquisitions.

In 2017 the rubber compounding business was integrated with industrial products to form the new Rubber Solutions segment. This new structure aligns well with the Company's strategic focus on increasing and diversifying its portfolio of higher margin compounds, while maintaining its market leadership as a rubber-based solutions provider to a diversified customer base. This integration positions the Company to optimize lead-generation, product development and commercialization timelines and processes, as well as capacity utilization, across our various assets and geographies. The challenges faced in 2017 with increased raw material costs are expected to continue in 2018. Management, under the leadership of the Company's new Chief Operating Officer Chris Bitsakakis, will be focused on further process improvement initiatives and adopting effective purchasing and pricing strategies to be more proactive in the marketplace. The goal is to increase operational efficiencies and profitability across all its plants and improve return metrics.

Within the Engineered Products segment, the automotive business' management team has been rebuilt. Having attracted new talent in sales, engineering, marketing, business development and operations, the Company is in a stronger position to win share of new platforms to be introduced by automakers. The new business development focus is geared at developing proactive strategies to win new multi-year contracts that replace programs that have expired or are nearing the end of their platform lifecycle. As these activities are necessarily focusing on platforms that start production in 2019 or later, they are not expected to have a significant impact on sales in the near term. In addition, the Company will continue to pursue its strategy of diversifying its anti-vibration and noise abatement solutions into ancillary markets, such as industrial and agricultural. Again, the Company expects it will take some time to see a significant impact to the top-line with this initiative. However, in the near term, the focus will be on operations and driving a concentrated effort to ensure rapid-response engineering and manufacturing to meet escalating industry standards and improve profitability. In the defense business, the Company expects momentum to continue to build into 2018, with increased tendering activity worldwide and heightened rate of inquiries across all product lines. While there can be no certainty as to timing and nature of government policy changes, nor with respect to timing or size of tenders and awards, the current pipeline is strong and the business is well positioned to win new business and deliver strong growth in 2018.

AirBoss remains committed to enhance shareholder value by driving sustainable profitable growth. With its strong balance sheet and strengthened management team, the Company is well positioned to achieve this goal through organic and in-organic growth opportunities.

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.

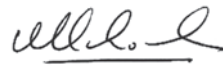
AirBoss of America Corp. maintains systems of internal accounting and administrative controls consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the Company's assets are appropriately accounted 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, 2017 and December 31, 2016 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 14, 2018



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, 2017 and December 31, 2016, the consolidated statements of profit and comprehensive income, changes in equity and 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 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

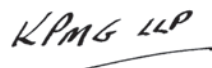
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AirBoss of America Corp. as at December 31, 2017 and December 31, 2016 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 14, 2018

Consolidated Statement of Financial Position

<i>In thousands of US dollars</i>	<i>Note</i>	December 31, 2017	December 31, 2016
ASSETS			
Current assets			
Cash and cash equivalents		17,748	27,971
Trade and other receivables	4	51,778	42,430
Prepaid expenses		3,205	3,902
Inventories	5	38,291	32,380
Current income taxes receivable	14	1,104	1,177
Total current assets		112,126	107,860
Non-current assets			
Property, plant and equipment	6	59,591	61,360
Intangible assets	7	52,782	54,333
Other assets	8	1,449	1,565
Total non-current assets		113,822	117,258
Total assets		225,948	225,118
LIABILITIES			
Current liabilities			
Loans and borrowings	10	6,398	4,009
Trade and other payables, including derivatives		31,942	32,699
Employee benefits	17	-	1,223
Provisions	11	1,242	26
Total current liabilities		39,582	37,957
Non-current liabilities			
Loans and borrowings	10	62,859	69,197
Employee benefits	17	560	507
Provisions	11	639	1,755
Deferred income tax liabilities	14	5,147	6,419
Total non-current liabilities		69,205	77,878
Total liabilities		108,787	115,835
EQUITY			
Share capital	12	37,860	37,826
Contributed surplus	12	2,067	1,899
Retained earnings		77,234	69,558
Total equity		117,161	109,283
Total liabilities and equity		225,948	225,118

The notes on pages 30 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>	2017	2016
Net Sales		289,855	267,628
Cost of sales	5	(245,335)	(221,032)
Gross profit		44,520	46,596
General and administrative expenses	3	(20,644)	(18,940)
Selling and marketing expenses		(5,149)	(5,801)
Research and development expenses	15	(2,153)	(2,676)
Other income	8	395	123
Operating expenses		(27,551)	(27,294)
Results from operating activities		16,969	19,302
Finance costs	10,17	(2,567)	(2,830)
Profit before income tax		14,402	16,472
Income tax expense	14	(1,770)	(2,650)
Profit and total comprehensive income for the year		12,632	13,822
Earnings per share			
Basic	13	0.55	0.60
Diluted	13	0.54	0.59

The notes on pages 30 to 55 are an integral part of these consolidated financial statements.

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, 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

<i>In thousands of US dollars</i>	Attributable to equity holders of the Company			
	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance at January 1, 2017	37,826	1,899	69,558	109,283
Total comprehensive income for the year				
Profit for the year	-	-	12,632	12,632
Contributions by and distributions to owners				
Stock options expensed	-	337	-	337
Share options exercised	52	(109)	-	(57)
Share options forfeited	-	(60)	-	(60)
Share repurchases	(18)	-	-	(18)
Dividends to equity holders	-	-	(4,956)	(4,956)
Total contributions by and distributions to owners	34	168	(4,956)	(4,754)
Balance at December 31, 2017	37,860	2,067	77,234	117,161

The notes on pages 30 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, 2017	December 31, 2016
Cash flows from operating activities			
Profit for the year		12,632	13,822
Adjustments for:			
Depreciation	6	7,379	6,935
Amortization of intangible assets	7	3,305	3,409
Finance costs	10, 17	2,567	2,830
Unrealized foreign exchange losses		71	392
Share-based payment expense	12	897	885
SRED tax credits	15	(181)	(633)
Current income tax expense	14	3,109	3,048
Deferred income tax recovery	14	(1,339)	(398)
Post-retirement benefits expense / (income)	17	13	(26)
Write-down of other assets	8	-	275
Other		(380)	(40)
		28,073	30,499
Change in inventories		(5,911)	3,825
Change in trade and other receivables		(9,096)	(242)
Change in prepaid expenses		713	(923)
Change in trade and other payables		(2,243)	693
Change in provisions		(589)	(3)
Net change in non-cash or working capital balances		(17,126)	3,350
Interest paid		(2,536)	(2,334)
Income tax paid		(2,600)	(1,775)
Net cash provided by operating activities		5,811	29,740
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		-	64
Acquisition of property, plant and equipment	6	(5,540)	(6,315)
Acquisition of intangible assets	7	(1,754)	(87)
Acquisition of subsidiary		-	724
Net cash used in investing activities		(7,294)	(5,614)
Cash flows from financing activities			
Repayment of borrowings		(4,005)	(3,994)
Repayment of share purchase loans	8	193	764
Share purchase loans	8	-	(372)
Share repurchases		(18)	-
Interest received on share purchase loan		12	12
Tax paid on exercise of share options		-	(133)
Dividends paid	12	(4,873)	(4,368)
Net cash used in financing activities		(8,691)	(8,091)
Net (decrease) / increase in cash and cash equivalents		(10,174)	16,035
Cash and cash equivalents at January 1		27,971	11,961
Effect of exchange rate fluctuations on cash held		(49)	(25)
Cash and cash equivalents at December 31		17,748	27,971

The notes on pages 30 to 55 are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements ("CFS")

For the years ended December 31, 2017 and 2016

(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, 2017 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 18).

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.

Operating Subsidiaries	Jurisdiction	Ownership % (2017)	Ownership % (2017 & 2016)
AirBoss of America Corp.	Ontario	100%	100%
AirBoss Rubber Compounding (NC) Inc.	North Carolina	100%	100%
AirBoss Engineered Products Inc.	Quebec	100%	100%
SunBoss Chemicals Corp.	Ontario	100%	100%
AirBoss Flexible Products Co.	Michigan	100%	100%
Immediate Response Technologies, LLC	Delaware	100%	100%

AirBoss, through its Rubber Solutions segment, is engaged in custom rubber compounding, supplying mixed rubber for use in mining, transportation, industrial rubber products, military, automotive, conveyor belting, oil and gas and other products, primarily in North America. The Rubber Solutions segment also operates our industrial products business, which as well as custom rubber compounding, develops and manufactures calendered, extruded and molded products for a broad range of applications and industries, out of Acton Vale, Quebec. SunBoss Chemicals Corp. sources chemicals used in the rubber compounding business for both internal consumption and external sales to customers who mix compounds internally, and its financial results are included in the financial disclosure provided in respect of the Rubber Solutions segment.

The Engineered Products segment operates a defense products line out of Acton Vale, Quebec, Bromont, Quebec and Landover, Maryland, USA and an automotive products business out of Auburn Hills, Michigan. AirBoss Engineered Products Inc. /AirBoss Produits d'Ingénierie Inc. ("AEP") and Immediate Response Technologies, LLC ("IRT") collectively operate our defense business (under the trade name "AirBoss Defense"). AirBoss Defense is a leader in the development, manufacture and sale of Chemical, Biological, Radiological and Nuclear ("CBRN") protective equipment and related products for military, first response and healthcare applications. AirBoss Flexible Products Co. operates our automotive business and is a leading manufacturer and supplier of innovative and cost-effective anti-vibration and noise dampening solutions primarily to the North American automotive market. Our automotive business designs, engineers and manufactures rubber, synthetic rubber and rubber-to-metal bonded products that are used to eliminate or control undesired vibration and noise, to enhance interior comfort, 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 14, 2018.

(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 – trade and other receivables

Note 5 – inventories

Note 7 – intangible assets

Note 14 – income taxes

Note 15 – 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 7 – intangible assets - key assumptions used in value-in-use calculations;

Note 11 – provisions;

Note 12 – capital and other components of equity;

Note 14 – income taxes;

Note 16 – commitments and contingencies; and

Note 17 – 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 Group entities' functional currencies 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.

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 tax.

(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, the amount recorded prior to the transition to IFRS.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested at least 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 defined benefit multi-employer pension plan (MEPP) under the terms of collective-bargaining agreements that cover its union-represented employees in the State of Michigan. Defined benefit MEPPs are accounted for as defined contribution plans as adequate information to account for the Company's participation in the plan is not available due to the size and number of contributing employees in the plan. The risks of participating in a (MEPP) 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), and head office expenses.

(n) Share-based payments

In 2015, the 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 May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers." The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has completed its evaluation and concluded the impact of IFRS 15 on its consolidated financial statements was immaterial on opening retained earnings as at January 1, 2018.

In July 2014, the IASB finalized IFRS 9, "Financial Instruments." The new standard introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard that aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide for more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. This standard is effective for annual periods beginning on or after January 1, 2018. The Company does not expect the transition to IFRS 9 to have a material impact on its consolidated financial statements.

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

	2017	2016
Trade receivables	50,870	41,636
Less: allowance for doubtful accounts	(185)	(95)
	50,685	41,541
Other receivables	1,093	889
	51,778	42,430

Impairment losses

The aging of trade receivables at the reporting date was:

December 31 <i>In thousands of US dollars</i>	2017		2016	
	Gross	Impairment	Gross	Impairment
Within terms	39,387	-	31,597	-
Past due 0-30 days	8,935	-	8,761	-
Past due 31-120 days	2,548	(185)	1,278	(95)
	50,870	(185)	41,636	(95)

The continuity of the allowance for doubtful accounts was:

	2017	2016
Balance at January 1	(95)	(734)
Impairment loss recognized	(90)	(115)
Collected	-	256
Revised estimate/write-off	-	498
Balance at December 31	(185)	(95)

NOTE 5 INVENTORIES**December 31***In thousands of US dollars*

	2017	2016
Raw materials and consumables	26,663	22,524
Work in progress	3,657	2,601
Finished goods	8,299	6,706
Inventory in transit	2,012	1,735
	40,631	33,566
Provisions	(2,340)	(1,186)
	38,291	32,380

An inventory charge of \$1,154 (2016: charge of \$55) was included in cost of sales.

NOTE 6 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, 2016	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
Additions	346	490	75	4,629	5,540
Disposals	-	(654)	-	-	(654)
Transfers	508	1,995	29	(2,532)	-
Balance at December 31, 2017	18,790	78,390	1,813	4,119	103,112
Accumulated depreciation					
Balance at January 1, 2016	4,461	24,390	1,214	-	30,065
Depreciation for the period	888	5,893	154	-	6,935
Disposals	-	(105)	(29)	-	(134)
Balance at December 31, 2016	5,349	30,178	1,339	-	36,866
Depreciation for the period	975	6,261	143	-	7,379
Disposals	-	(724)	-	-	(724)
Balance at December 31, 2017	6,324	35,715	1,482	-	43,521
Carrying amounts					
<i>In thousands of US dollars</i>	Land and buildings	Plant and equipment	Furniture and equipment	Under construction	Total
At December 31, 2016	12,587	46,381	370	2,022	61,360
At December 31, 2017	12,466	42,675	331	4,119	59,591

Depreciation expense of \$7,192 (2016: \$6,733) was charged to costs of sales, \$62 (2016: \$103) was charged to general and administrative expense and \$125 (2016: \$140) was charged to research and development expenses.

Government assistance grants relating to capital assets were \$165 in 2017 (2016: \$1,272); land and buildings and property, plant and equipment were adjusted accordingly.

NOTE 7 INTANGIBLE ASSETS

<i>In thousands of US dollars</i>	Customer Relationships	Goodwill	Software	Total
Cost				
Balance at January 1, 2016	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
Purchases	-	-	1,754	1,754
Balance at December 31, 2017	28,250	32,225	5,846	66,321
Amortization				
Balance at January 1, 2016	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
Amortization for the period	2,825	-	480	3,305
Balance at December 31, 2017	9,787	-	3,752	13,539
Carrying amounts				
At December 31, 2016	21,288	32,225	820	54,333
At December 31, 2017	18,463	32,225	2,094	52,782

Amortization expense of \$3,305 (2016: \$3,409) was charged to general and administrative expense. Remaining amortization for customer relationships acquired is 5.8 to 7.5 years.

Goodwill**December 31**

<i>In thousands of US dollars</i>	2017	2016
Defense	22,160	22,160
Automotive	10,065	10,065
	32,225	32,225

Indefinite-life intangible assets – customer relationships**December 31**

<i>In thousands of US dollars</i>	2017	2016
Defense	9,188	10,412
Automotive	9,275	10,876
	18,463	21,288

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. As at December 31, 2017 and December 31, 2016, there was no goodwill impairment.

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 11.3%
- 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.

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, engineered products industries and are based on both external sources and internal sources (historical data).

Notes to CFS (cont'd)

NOTE 8 OTHER ASSETS

<i>In thousands of US dollars</i>	Convertible promissory Note	Share purchase loan	10% equity investment	Other	Total
Balance at January 1, 2016	275	1,447	313	130	2,165
Accrued interest	-	12	-	-	12
Interest paid	-	(12)	-	-	(12)
Repayment of loan	-	(763)	-	-	(763)
New loan issuances	-	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
Accrued interest	-	11	-	-	11
Interest paid	-	(11)	-	-	(11)
Repayment of loan	-	(193)	-	-	(193)
Effect of movements in exchange rates	-	71	-	6	77
Balance at December 31, 2017	-	997	313	139	1,449

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

NOTE 9 DERIVATIVES NOT MEETING HEDGE ACCOUNTING CRITERIA**Foreign exchange hedge**

At December 31, 2017, the Company had contracts to sell US \$13,272 in 2018 for CAD \$16,966. The fair value of these contracts, representing a gain of \$252, was recorded in 2017 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 a gain.

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. This agreement was entered into as the previous interest rate swap entered into in 2014, for a notional amount of \$22.5 million exchanging a floating rate of USD LIBOR for a fixed rate of 0.98%, expired on February 27, 2017.

During 2017, the net interest expense of the swap agreement was \$195 and \$195 was paid (2016: \$125 and \$125 was paid).

For the year ended December 31, 2017, the fair value of this agreement, representing a gain of \$275, (2016: loss of \$11) 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 10 LOANS AND BORROWINGS**December 31***In thousands of US dollars*

	2017	2016
Non-current		
Term debt	63,761	70,231
Less: deferred financing	(902)	(1,034)
Current	62,859	69,197
Term debt	6,398	4,009

December 31*In thousands of US dollars*

	2017	2016
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.	2,923	2,979
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. During 2016, the loan was converted to LIBOR plus applicable margins from 175 to 275 basis points depending on covenants.	67,236	71,261
Subtotal	70,159	74,240
Less principal due within one year	(6,398)	(4,009)
	63,761	70,231
Less deferred financing	(902)	(1,034)
	62,859	69,197

Notes to CFS (cont'd)

During the fourth quarter of 2017, certain changes in the calculations for the covenant terms in the credit facilities were amended on a prospective basis.

The Company's current credit facilities are 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.

Deferred financing fees of \$98, in regards to the amended agreement (dated December 18, 2017) were incurred.

The fees are being amortized over 5 years and \$262 (2016: \$265) has been amortized and is included in finance costs.

Interest expense in 2017 on the term loans was \$2,097 (2016: \$2,239).

Principal repayments on the term loan are as follows:

<i>In thousands of US dollars</i>	Total	2018	2019	2020
Term loan	70,159	6,398	3,761	60,000

In 2017 and 2016, 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, 2017. 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, 2017 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>	2017	2016
Less than 1 year	6,398	4,009
1 to 5 years	62,859	69,197
	69,257	73,206

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

<i>In thousands of US dollars</i>	Carrying amount		Fair value	
	2017	2016	2017	2016
Term debt	69,257	73,206	69,968	74,169

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 4.82% (2016: 4.16%) for CAD fixed rate term loan and 3.47% (2016: 2.63%) for the US LIBOR term loan.

NOTE 11 PROVISIONS

<i>In thousands of US dollars</i>	Site restoration	Restricted stock units	Performance awards and Deferred stock units	Lease incentives	Total
Balance at January 1, 2016	72	1,011	-	278	1,361
Provisions accrued during the year	-	293	108	-	401
Amortization during the year	-	-	-	(13)	(13)
Foreign exchange	2	33	(3)	-	32
Balance at December 31, 2016	74	1,337	105	265	1,781
Provisions accrued during the year	-	329	240	-	569
Payments during the year	-	(549)	-	-	(549)
Amortization during the year	-	-	-	(26)	(26)
Foreign exchange	-	85	21	-	106
Subtotal	74	1,202	366	239	1,881
Less principal due within one year	-	(1,202)	-	(40)	(1,242)
Balance at December 31, 2017	74	-	366	199	639

Notes to CFS (cont'd)

Restricted Stock Units

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

<i>Restricted stock units</i>	December 31, 2017	December 31, 2016
January 1	224,000	238,500
Forfeitures	(15,000)	(14,500)
Exercised	(59,000)	-
Balance	150,000	224,000

During 2017 and 2016, no restricted stock units were issued. In 2017, 15,000 restricted stock units were forfeited, 59,000 restricted stock units were exercised for \$549 in cash (2016: nil). At December 31, 2017 the Company has recognized as employee costs \$329 (2016: \$293) related to the plan.

Performance Awards

The Company has issued certain executives with an aggregate of 93,333 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. The performance awards vest three years following the grant date.

<i>Performance stock units</i>	December 31, 2017	December 31, 2016
January 1	50,680	-
New issuances	55,830	52,610
Forfeitures	(13,177)	(1,930)
Balance	93,333	50,680

During 2017, the Company recognized as employee costs \$95 (2016: \$47) related to the plan.

Deferred Stock Units

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

<i>Deferred stock units</i>	December 31, 2017	December 31, 2016
January 1	11,428	-
New issuances	18,577	11,428
Balance	30,005	11,428

At December 31, 2017, independent directors were granted an aggregate of 30,005 DSUs with a fair value of \$369 at the date of grant. During 2017, 18,577 DSUs were issued. During 2017, the Company recognized as employee costs \$145 (2016: \$61) related to DSUs issued under the Omnibus Plan.

NOTE 12 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, 2017, 1,524,111 shares are available (2016: 2,307,418).

Issued share capital is as follows:

<i>In thousands of shares</i>	2017	2016
January 1	23,074	23,022
Exercise of share options	19	46
Share awards	-	6
Share repurchase	(2)	-
December 31	23,091	23,074

Issuance of common shares

During 2017, 62,500 options (2016: 100,000) were exercised resulting in the issuance of 19,030 (2016: \$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. During 2017, the Company recognized as employee costs of nil (2016: \$78) related to these awards.

During the fourth quarter of 2017, the Company commenced a normal course issuer bid ("NCIB") to purchase up to 1,359,443 of its common shares, representing approximately 10% of the Company's public float. The Company purchased 2,100 (2016: nil) shares under its NCIB in 2017.

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>	2017	2016
Balance at January 1	1,899	1,691
Stock option expense	337	449
Exercise of stock options	(109)	(200)
Recovery of forfeited options	(60)	(41)
Balance at December 31	2,067	1,899

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, 2017, are as follows:

Range of exercise price (\$CAD)	Options outstanding Quantity	Weighted average contract life	Options exercisable Quantity
6.35	495,000	0.61	495,000
10.98	33,200	4.87	1,200
12.05	240,000	2.00	180,100
12.26	64,137	4.22	12,500
15.40	50,000	2.25	34,400
16.69	91,373	3.25	40,100
17.86	15,000	3.00	7,500
	988,710		770,800

Options granted and outstanding:

A summary of the status of the Company's stock option plan as of December 31, 2017 and 2016 and changes during the years then ended, is presented below:

	2017		2016	
	Quantity	Weighted average exercise price (\$CAD)	Quantity	Weighted average exercise price (\$CAD)
Outstanding beginning of year	986,400	9.57	995,000	8.65
Granted	142,796	11.96	111,400	16.69
Exercised	(62,500)	6.92	(100,000)	7.13
Forfeited	(77,986)	12.45	(20,000)	15.40
Outstanding end of year	988,710	9.86	986,400	9.57

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>	November 2017	March 2017	March 2016
Fair value at grant date	\$2.26	\$2.35	\$3.60
Share price at grant date	10.50	11.08	15.25
Exercise price	10.98	12.26	16.69
Expected volatility (weighted average volatility)	32.0%	34.2%	34.6%
Option life (expected weighted average life)	5 years	5 years	5 years
Expected annual dividend rate	2.7%	2.5%	1.6%
Risk-free interest rate (based on government bonds)	1.7%	1.2%	0.7%

The stock options issued vest as follows:

	Quantity
Vested at December 31, 2017	770,800
2018	123,000
2019	54,100
2020	30,073
2021	10,737
	988,710

Stock option expense

During the year, the Company recognized as employee costs \$277 (2016: \$408) 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 2017 and in 2016 as follows:

	2017		2016	
Shareholder of record at:	\$CAD/share	Date Paid	\$CAD/share	Date Paid
March 31	0.070	April 14, 2017	0.060	April 14, 2016
June 30	0.070	July 14, 2017	0.065	July 14, 2016
September 30	0.070	October 13, 2017	0.065	October 14, 2016
December 31	0.070	January 15, 2018	0.065	January 12, 2017
	0.280		0.255	

The dividend payable at December 31, 2017 was \$1,288 (2016: \$1,117).

NOTE 13 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>	2017	2016
Numerator for basic and diluted earnings per share:		
Net income	12,632	13,822
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	23,082	23,062
Dilution effect of stock options	242	354
Dilution of effect of restricted share units	136	139
Dilution of effect of deferred stock units	13	1
Diluted weighted average number of shares outstanding	23,473	23,556
Net income per share:		
Basic	0.55	0.60
Diluted	0.54	0.59

As of December 31, 2017, 220,510 options (2016: 176,400) 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 14 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>	2017	2016
Combined federal and provincial statutory income tax	3,817	4,365
Foreign tax differential	(140)	69
Effect of permanent differences	(902)	(1,232)
Change in tax rates and new legislation	(956)	(310)
Difference arising on filing and assessments	(62)	(256)
Other	13	14
Total expense	1,770	2,650
The components of the provision for income taxes are as follows:		
Current	3,109	3,048
Deferred	(1,339)	(398)
Total	1,770	2,650

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>	2017	2016
Deferred income tax assets:		
Non-capital income tax loss carry-forwards	1,844	872
Deferred income tax deductions relating to long-term liabilities	141	453
Equity Compensation	475	493
Alternative minimum tax	97	97
Capital assets	167	648
Other	13	42
	2,737	2,605
Deferred income tax liabilities:		
Deferred income tax deductions relating to long-term liabilities	(21)	(54)
Financing fees	(49)	5
Capital assets	(7,814)	(8,975)
	(7,884)	(9,024)
Net deferred income tax liabilities	(5,147)	(6,419)

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 \$1,789 (2016: \$791) available to offset deferred income taxes in the US and has recognized a related deferred income tax asset of \$1,789 (2016: \$791).

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 \$42,968 (2016: \$40,318).

Deferred tax assets have not been recognized in respect of capital losses because it is not probable that future capital gains will be available against the capital losses.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") that significantly revises the U.S. tax code generally effective January 1, 2018 by, among other changes, lowering the corporate income tax rate from 35% to 21%, limiting deductibility of interest expense and performance based incentive compensation and implementing a modified territorial tax system. As a Canadian entity, the Company generally would be classified as a foreign entity (and, therefore, a non-U.S. tax resident) under general rules of U.S. federal income taxation. However, the Company have subsidiaries subject to U.S. federal income taxation and therefore the Tax Act impacted our consolidated results during 2017, and is expected to continue to impact our consolidated results in future periods. The impact to its consolidated statement in 2017 consists of the remeasurement of net deferred tax liabilities as of the enactment date.

As a result of the reduction in the U.S. corporate tax rate, it remeasured our U.S. net deferred tax liabilities as of the enactment date and recognized a benefit of \$956 in the provision for income taxes in 2017, which is a reduction in net deferred tax liabilities as of December 31, 2017.

NOTE 15 GOVERNMENT ASSISTANCE

During 2017, Rubber Solutions recognized grants of \$106 (2016: \$130); Engineered Products recognized grants of \$nil (2016: \$13). Scientific research and investment tax credits of \$335 (2016: \$617) were recognized in 2017; research and development costs were reduced accordingly. In addition, \$165 (2016: \$1,272) was recognized as a reduction to capital assets in respect of provincial tax credits.

NOTE 16 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
2018	98	1,785	1,883
2019	23	1,605	1,628
2020	8	644	652
2021	-	615	615
2022	-	143	143
Thereafter	-	143	143
Total	129	4,935	5,064

Litigation

No legal provisions are recognized at December 31, 2017 and 2016.

NOTE 17 POST RETIREMENT BENEFITS

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

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

The 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 \$20. This plan is unfunded as such there is no plan asset to be disclosed. At December 31, 2017, the weighted average duration of the defined benefit obligation was 12 years (2016: 12 years).

Notes to CFS (cont'd)

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

December 31

In thousands of US dollars

	2017	2016
Statement of Financial Position obligations for:		
Executive supplemental plan	-	1,223
Other benefit plan	560	507
	560	1,730
Income statement charge for:		
Executive supplemental plan	24	80
Other benefit plan	22	(4)
	46	76

	Executive Supplemental Plan		Other benefit plan	
December 31	2017	2016	2017	2016
<i>In thousands of US dollars</i>				
Present value of unfunded obligation and Liability in the Statement of Financial Position	-	1,223	560	507
Movement in the defined benefit obligation is as follows:				
At January 1	1,223	1,143	507	508
Current service cost	-	-	-	3
Interest cost	11	45	18	19
Benefit payment	(1,247)	-	-	(39)
Exchange differences	13	35	35	16
	-	1,223	560	507
At December 31				
The amounts recognized in the income statement are as follows:				
Post-retirement benefits expense	-	-	(31)	(39)
Interest cost	11	45	18	19
Exchange differences	13	35	35	16
Expense (recovery)	24	80	22	(4)

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	2017	2016	2017	2016
<i>In thousands of US dollars</i>				
The principal actuarial valuation assumptions used were as follows:				
Discount rate	N/A	3.75%	3.30%	3.75%
Mortality	N/A	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	N/A	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, 2016. 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	2017	2016
<i>In thousands of US dollars</i>		
Discount rate 2016: 3.50% (instead of 3.75%)	N/A	38
Mortality 1-year increase in life expectancy	N/A	27
Retirement age 100% at age 64 years old (instead of 100% at 65 years old) (2016: 100% at age 64 years (instead of 100% at 65 years))	N/A	(67)

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	2017	2016
Effect of an increase of 1% Post-employment benefit obligation	(58)	(53)
Effect of a decrease in 1% Post-employment benefit obligation	73	67
Mortality Sensitivity Analysis		
Effect of an increase of 10% on mortality rates Post-employment benefit obligation	9	6
Effect of a decrease of 10% on mortality rates Post-employment benefit obligation	(10)	(8)

Defined Contribution Plan

AirBoss Flexible Products Co. (“Flexible”) maintains a 401(k) defined contribution plan for its employees. Total contributions and expense to this plan during 2017 were \$373 (2016: \$444).

AirBoss Rubber Compounding (NC) Inc. maintains a 401(k) plan for its employees. Total contributions and expense to this plan during 2017 were \$41 (2016: \$18).

AirBoss of America Corp. maintains a registered retirement savings plan defined contribution plan for all of their employees. Total contribution and expense to this plan for 2017 were \$298 (2016: \$290).

AirBoss Engineered Products Inc. employees are covered under various registered and unregistered defined contribution plans. Total contribution and expense to these plans for 2017 were \$147 (2016: \$147).

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 2017, the Company made contributions of \$279 (2016: \$289) to the multi-employer pension plan. The unfunded vested benefit ratio was 66.83% at December 31, 2017 (2016: 68.0%). The Steel Workers Pension Trust was in a net deficit at December 31, 2017 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 and negotiation is on-going for agreement renewal. 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 unknown due to the on-going agreement negotiation.

NOTE 18 SEGMENTED INFORMATION

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

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

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

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

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

For the year ended December 31	Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
<i>In thousands of US dollars</i>	2017	2016	2017	2016	2017	2016	2017	2016
Segment net sales	153,608	127,518	164,706	163,872	-	-	318,314	291,390
Inter-segment net sales	(28,194)	(23,481)	(264)	(282)	-	-	(28,458)	(23,763)
External net sales	125,413	104,037	164,442	163,591	-	-	289,855	267,628
Depreciation and amortization	5,174	5,003	5,466	5,298	44	43	10,684	10,344
Finance cost	4,733	4,745	-	(3)	(2,166)	(1,912)	2,567	2,830
Reportable segment profit (loss) before income tax	6,715	7,662	8,000	9,683	(313)	(873)	14,402	16,472
Income tax expense (recovery)	2,249	1,888	1,228	2,439	(1,707)	(1,677)	1,770	2,650
Net Income	4,466	5,774	6,772	7,244	1,394	804	12,632	13,822
Reportable segment assets	91,079	84,933	123,689	120,422	11,180	19,763	225,948	225,118
Reportable segment liabilities	18,193	20,085	14,975	15,467	75,619	80,283	108,787	115,835
Capital expenditures	3,637	4,131	2,700	2,217	957	54	7,294	6,402

AirBoss of America Corp.

Notes to CFS (cont'd)

Geographical segments

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

In presenting information on the basis of geographical segments, segment net sales 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.

	December 31, 2017		December 31, 2016	
<i>In thousands of US dollars</i>	Net sales	Non-current assets	Net sales	Non-current assets
Canada	45,361	45,450	48,401	45,612
United States	213,633	68,372	205,336	71,647
Other countries	30,861	-	13,891	-
	289,855	113,822	267,628	117,259

Major customers

Net sales from one customer represent approximately 9% (2016: 9%) of consolidated net sales in 2017. Five customers represented 29% (2016: 31%) of consolidated net sales in 2017.

Major Products

<i>In thousands of US dollars</i>	2017	2016
Rubber Solutions		
Tolling	7,624	5,227
Industrial	31,286	24,084
Mixing	86,503	74,727
	125,413	104,038
Engineered Products		
Industrial	131,773	141,102
Defense	32,669	22,488
	164,442	163,590
	289,855	267,628

NOTE 19 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 \$149 (2016: \$136).

During the year, the Company paid fees for the use of a facility in South Carolina of approximately \$14 (2016: \$21) 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 the automotive business for its office and manufacturing facilities (2016: \$1,170). 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, COO, CFO, and divisional Presidents. The compensation expense to key management for employee services is shown below:

December 31

In thousands of US dollars

	2017	2016
Salaries and other short term benefits	2,397	2,217
Pension/Post-employment benefits	24	45
Share-based payment expense	839	775
	3,260	3,037

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. During 2017, an executive was paid \$1,247 in advance of retirement relating to the executive supplemental plan. See Note 17 - Post Retirement Benefits.

Key management and directors own 25.0% 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 former Deputy Chairman of the Company is the chairman. This note was convertible into an equity interest under the following conditions: (1) if the company completed "qualified financing" raising \$1 million in gross proceeds (excluding the Company's loan); (2) if no "qualified financing" took place prior to the maturity date, the Company had the option to convert into common stock within 60 days prior to the maturity date of the note. By the end of 2016, the entire promissory note was written off, subsequently the Company, in which the investment was made, was dissolved.

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 2017 and 2016.

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 the former Senior Executive Vice President, Corporate. During the fourth quarter of 2017, the outstanding share purchase loan of \$200 (CAD \$250) was repaid in full by the former Senior Executive Vice President, Corporate. The loan to the CFO is 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, 122,000 shares of the Company having a fair value of \$1,035 were pledged as collateral on these three loans. At December 31, 2017, the promissory notes of \$997, including accrued interest of \$11, were included in other assets. During the year, interest of \$11 (2016 \$12) was paid.

NOTE 20 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, generally 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	
	2017	2016
Natural and synthetic rubber	(2.66)	(1.60)
Carbon black	(1.17)	(0.72)
EPDM	(0.78)	(0.58)
Silicone	(0.83)	(0.90)
	(5.44)	(3.80)

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 Solution segment's profit and loss is somewhat naturally hedged in that sales denominated in US dollars offset US dollar expenses and debt service costs.

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	
	2017	2016
Sales (1)	(2.8)	(2.8)
Purchases (2)	4.8	4.4

(1) Based upon Canadian dollar-denominated sales in 2017

(2) Based upon Canadian dollar-denominated purchases and expenses in 2017

Interest Rate Risk

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

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. This agreement was entered into as the previous interest rate swap entered into in 2014, for a notional amount of \$22.5 million exchanging a floating rate of USD LIBOR for a fixed rate of 0.98%, expired on February 27, 2017.

During 2017, the net interest expense of the swap agreement was \$195 and \$195 was paid (2016: \$125 and \$125 was paid).

For the year ended December 31, 2017, the fair value of this agreement, representing a gain of \$275, (2016: loss of \$11) 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>		2017	2016
Fixed rate instruments			
Financial assets	997	1,119	
Financial liabilities	(2,923)	(2,979)	
Variable rate instruments			
Financial assets	-	-	
Financial liabilities	(66,833)	(70,884)	
Total	(68,759)	(72,744)	

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
2017		
Variable rate instruments	(178)	276
2016		
Variable rate instruments	(330)	287

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 \$17,748 at December 31, 2017 (2016: \$27,971), 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% (2016: 9%) of consolidated net sales in 2017. Five customers represented 29% (2016: 31%) of consolidated net sales in 2017. 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 \$17,748 and unused revolving credit facilities of \$60,000 (2016: cash of \$27,971 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, 2017	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	17,748	-	-	17,748	17,748
Trade and other accounts receivable	-	51,778	-	51,778	51,778
Share Purchase loans	-	997	-	997	997
Total financial assets	17,748	52,775	-	70,523	70,523
Interest rate swap	-	-	(275)	(275)	(275)
Foreign Exchange Hedge	-	-	(252)	(252)	(252)
Long term loan	-	-	69,532	69,532	69,968
Other liabilities	-	-	39,782	39,782	39,782
Total financial liabilities	-	-	108,787	108,787	109,223

Notes to CFS (cont'd)

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
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

The fair value of the share purchase loans and long term loan has been based on market interest rate (level 2) in 2016 and 2017. 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 2016 and 2017. There were no transfers between levels of the fair value hierarchy in 2016 and 2017.

Capital Management

The Company has defined its capital as follows:

December 31	2017	2016
<i>In thousands of US dollars</i>		
Cash and cash equivalents	(17,748)	(27,971)
Term loan and other debt	69,257	73,206
Net debt	51,509	45,235
Shareholders' equity	117,161	109,283
	168,670	154,518

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 25.0% or 5,778,978 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 2017, the Company commenced a normal course issuer bid ("NCIB") to purchase up to 1,359,443 of its common shares, representing approximately 10% of the Company's public float. The Company purchased 2,100 (2016: nil) shares under its NCIB in 2017.

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

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 10, 2018
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.

Corporate Information

CORPORATE OFFICE

AirBoss of America Corp.

16441 Yonge Street
Newmarket, Ontario, Canada L3X 2G8
Telephone: 905-751-1188
Facsimile: 905-751-1101

Chairman and CEO:
P. G. (Gren) Schoch

President:
Lisa Swartzman

Chief Financial Officer:
Daniel Gagnon

Chief Operating Officer:
Chris Bitsakakis



AIRBOSS OF AMERICA CORP.

