

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

The following Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations of AirBoss of America Corp. ("AirBoss" or the "Company") has been prepared as of November 6, 2019 and should be read in conjunction with the Unaudited Interim Condensed Consolidated Financial Statements and Notes for the three- and nine- month periods ended September 30, 2019 and the MD&A and Audited Consolidated Financial Statements and Notes for the year ended December 31, 2018. The Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The Audit Committee and Board of Directors have reviewed and approved the contents of this MD&A, the Financial Statements and the third quarter press release. All dollar amounts are shown in thousands of US dollars, except per share amounts, unless otherwise specified. Additional information regarding the Company, including its Annual Information Form, can be found on SEDAR at www.sedar.com and on the Company's website at www.airbossofamerica.com.

FORWARD-LOOKING INFORMATION

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

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

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

Recent Highlights**(in US dollars)**

- Increased consolidated EBITDA by 12.1% to US\$6.0 million in Q3 2019, compared to Q3 2018;
- Grew basic and diluted earnings per common share by 16.7% to US\$0.07 per common share, compared with US\$0.06 in Q3 2018;
- Invested US \$13.0 million during the nine-month period ended September 30, 2019, on capital expenditures related to growth initiatives and equipment upgrades across the organization, in addition to a new research and development facility at the Kitchener, Ontario plant;
- Paid a quarterly dividend of CAD \$0.07 per common share;
- Awarded an indefinite delivery/indefinite quantity contract by the U.S. Department of Defense to manufacture up to 600,000 pairs of molded CBRN lightweight overboots ("MALO") expected to be worth up to US\$26.7 million; and
- Received approval from the Committee on Foreign Investment in the United States to proceed with the previously announced merger between AirBoss' defense business and Critical Solutions International, Inc., which is expected to close by January 1, 2020.

Selected Financial Information

<i>In thousands of US dollars, except share data</i>	Three-months ended September 30		Nine-months ended September 30	
	2019	2018	2019	2018
Financial results:				
Net sales	77,173	77,773	242,364	240,119
Net income	1,525	1,347	7,762	7,205
Net income per share (US\$)				
– Basic	0.07	0.06	0.33	0.31
– Diluted	0.07	0.06	0.33	0.31
EBITDA ²	5,995	5,350	23,249	19,943
Net cash provided by operating activities	12,555	4,565	12,033	6,101
Dividends declared per share (CAD \$)	0.07	0.07	0.21	0.21
Capital additions	5,635	1,043	13,585	3,789
Financial position:				
	September 30, 2019		December 31, 2018	
Total assets	239,928		232,528	
Term loan and other debt ¹	68,890		62,956	
Shareholders' equity	124,760		121,483	
Outstanding shares (#) *	23,392,442		23,392,442	
* at November 6, 2019				

¹Term loan and other debt as at September 30, 2019, includes \$8,295 of lease liabilities (see Significant Accounting Policies).

²Non-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, to finance working capital and capital expenditures and to pay 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>	Three-months ended September 30		Nine-months ended September 30	
	(unaudited)		(unaudited)	
	2019	2018	2019	2018
EBITDA:				
Net Income	1,525	1,347	7,762	7,205
Finance costs	901	743	2,981	1,913
Depreciation, amortization and impairment	3,369	2,697	10,024	8,238
Income tax expense	200	563	2,482	2,587
EBITDA	5,995	5,350	23,249	19,943

OVERVIEW

During the third quarter of 2019, AirBoss' core Rubber Solutions segment continued to grow volumes with a 5.5% increase in pounds shipped, although net sales (in dollars) dropped slightly (3.5%) due to the increase in tolling vs non-tolling sales. The slight drop in net sales in Rubber Solutions was partially offset by a 1.7% increase in net sales in the Engineered Products segment. To support longer-term growth, AirBoss is investing in a series of key strategic initiatives across the business in 2019. Capital expenditures for 2019 are expected to fall in the range of \$18 to \$20 million dollars before decreasing to levels closer to depreciation in 2020. Capital expenditures through September 30, 2019 were \$13.0 million.

For the Rubber Solutions segment, areas of investment include new mixing lines in Kitchener, ON and Scotland Neck, NC that, in addition to increasing annual capacity by 20 and 50 million pounds, respectively, will support production of a broader array of compounded products (white and color), as well as provide enhanced flexibility in attracting and fulfilling new business. The Company also recently acquired a new "tilt" mixer, which should support the production of increasingly specialized, higher margin compounds. In Kitchener, AirBoss has finished upgrading its office and laboratory facilities to support enhanced collaboration with customers and better reflect the Company's focus on innovative R&D and proprietary technical solutions. In the Engineered Products segment, AirBoss is piloting new presses for the anti-vibration business that are intended to reduce cycle times and lower labor costs, which is expected to support improved margins. More broadly, the Company is also investing in developing new anti-noise, vibration and harshness products, as well as the next generation of the low-burden mask marketed by the defense business.

Within the Engineered Products segment, the defense business remains focused on fulfilling the key contracts secured in 2018 and 2019, including the recent MALO contract award from the U.S. Department of Defense. Management in the anti-vibration business is continuing to work to address key challenges directly, with the near-term focus remaining on driving margins through better cost management and improved pricing strategies. In addition, the recently strengthened sales and marketing team is working to both increase penetration with existing customers as well as target new ones, including major automakers and Tier I and II parts suppliers. Over the medium and longer-term, the team is focused on launching new products that diversify initially into opportunities adjacent to the automotive space, such as trucking, buses, construction and motorcycles/ATVs, but increasingly across a range of sectors where anti-noise, vibration and harshness solutions are required including, renewable energy, marine, rail and appliances.

In May 2019, AirBoss announced a transaction to create AirBoss Defense Group ("ADG") through the merger of the AirBoss defense business with privately-owned Critical Solutions International. While management believes there are numerous synergies associated with transaction, most important is the creation of a strong platform with the scale, capabilities and flexibility to act on an array of growth opportunities, both organic and transactional. AirBoss' defense business continues to identify and submit to tenders internationally, cumulatively valued at hundreds of millions of dollars. In the third quarter AirBoss received approval from the Committee on Foreign Investment in the United States to proceed with the transaction, which is expected to close by January 1, 2020.

As part of its go-forward strategy for the Company, management is focused on four core priorities:

1. Growing the core Rubber Solutions segment by positioning it as a specialty supplier of choice in the consolidating North American market;
2. Completing the ADG transaction and then leveraging the new entity's enhanced scale and capabilities to pursue an array of growth and value-creation opportunities in the broader defense sector;
3. Driving improved performance from the anti-vibration business through a combination of disciplined cost containment, client relationship expansion, new product development and sector diversification; and
4. Targeting additional acquisition opportunities across the business with a focus on strategic fit at reasonable valuations.

AirBoss continues to generate meaningful returns to shareholders through a stable quarterly dividend, while driving improved profitability and simultaneously investing in core areas of the business to expand a solid foundation that will support long-term growth.

RESULTS OF OPERATIONS - For the period ended September 30, 2019 compared to 2018

NET SALES

Consolidated net sales for the three-month period ended September 30, 2019 decreased by 0.8% to \$77,173, as higher net sales in the Engineered Products segment were more than offset by decreased net sales in Rubber Solutions. The decrease in the Rubber Solutions segment was due in part to a higher product sales mix in tolling versus non-tolling applications. In tolling applications, the Company only realizes net sales on the provision of compounding services for customer-supplied material, versus non-tolling where AirBoss also supplies the raw material inputs that are reflected in net sales.

Consolidated net sales for the nine-month period ended September 30, 2019 increased by 0.9% to \$242,364, as higher net sales in the Rubber Solutions segment were partly offset by softness in the anti-vibration business within the Engineered Products segment for reasons discuss below.

Three-months ended September 30 <i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	Total
Net Sales	2019	35,902	41,271	77,173
	2018	37,193	40,580	77,773
Increase (decrease) \$		(1,291)	691	(600)
Increase (decrease) %		(3.5)	1.7	(0.8)
<hr/>				
Nine-months ended September 30 <i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	Total
Net Sales	2019	113,678	128,686	242,364
	2018	109,680	130,439	240,119
Increase (decrease) \$		3,998	(1,753)	2,245
Increase (decrease) %		3.6	(1.3)	0.9

Rubber Solutions

While overall volume increased, as discussed below, for the three-month period ended September 30, 2019, net sales in the Rubber Solutions segment decreased by 3.5% to \$35,902, down from \$37,193 in the comparable period in 2018. The decrease in net sales was in the track, conveyor belt and off the road ("OTR") sectors. These decreases were partly offset by increased demand in the mining and defense sectors.

Despite the decrease in net sales (in dollars), overall volume (measured in pounds shipped) for the three-month period ended September 30, 2019, increased by 5.5% compared with the same period in 2018. Tolling volumes for the quarter increased 33.6%, compared with the same period in 2018. The increase was in both conventional and niche applications. Non-tolling volumes decreased modestly by 1.8%, for the three-month period ended September 30, 2019, compared with the same period in 2018.

For the nine-month period ended September 30, 2019, net sales in the Rubber Solutions segment increased by 3.6% to \$113,678, from \$109,680 in the comparable period in 2018. The increase in net sales was principally due to a 7.9% increase in volume. Many of the sectors the Company serves supported the increase in sales, in particular the mining, tolling, defense, OTR, and conveyor belt sectors. These increases were partly offset by softness in the track and chemical sectors.

Tolling volumes for the nine-month period ended September 30, 2019 increased by 18.3%, compared with the same period in 2018, due to conventional tolling applications while niche applications were flat. Non-tolling volumes increased by 4.8% for the nine-month period ended September 30, 2019, compared with the same period in 2018.

Engineered Products

Net sales in the Engineered Products segment for the three-month period ended September 30, 2019 increased by 1.7% to \$41,271, up from \$40,580 in the comparable period in 2018, with increases in the anti-vibration business that were partly offset by lower net sales in the defense business. For the nine-month period ended September 30, 2019, net sales decreased by 1.3% to \$128,686, down from \$130,439 in the comparable period in 2018, as increases in the defense business were more than offset by decreases in the anti-vibration business for reasons explained below.

For the three-month period ended September 30, 2019, net sales in the anti-vibration business within the Engineered Products segment increased by 2.4% to \$31,709, from the comparable period in 2018. The increase was in the bushings, grommet, boots and induction bonding product lines. These increases were partly offset by softness in the dampers and spring isolator product lines.

For the three-month period ended September 30, 2019, net sales in the defense business within the Engineered Products segment decreased by 0.5% to \$9,562, from \$9,613 in the comparable period in 2018. The decrease was in the shelters, filters, and powered

MD&A (cont'd)

air purifying respirators ("PAPRs") product lines and was partly offset by an increase in the gloves and boots product lines. In addition, the decrease was also due to a shift of scheduled deliveries into the fourth quarter of 2019.

For the nine-month period ended September 30, 2019, net sales in the anti-vibration business within the Engineered Products segment decreased by 3.0% to \$95,340, from the comparable period in 2018. The decrease was across a number of product lines, including dampers, spring isolators, and bushings, which were partly offset by increases in the grommet and induction bonding product lines.

For the nine-month period ended September 30, 2019, net sales in the defense business increased by 3.9% to \$33,346, from \$32,105 in the comparable period in 2018. The increase was in the gloves and boots product lines, partly offset by lower demand for the shelters, filters, masks and PAPRs product lines.

GROSS PROFIT

For the three-month period ended September 30, 2019, consolidated gross profit increased by \$1,023 to \$10,585, compared with the same period in 2018, with improvements in both the Rubber Solutions and Engineered Products segments. In the Engineered Products segment, gross profit increased in both the defense business and anti-vibration business.

For the nine-month period ended September 30, 2019, consolidated gross profit increased by \$823 to \$35,508, compared with the same period in 2018, with improvements in Rubber Solutions being partly offset by decreases in the Engineered Products segment. In the Engineered Products segment, increased gross profit in the defense business was more than offset by decreased gross profit in the anti-vibration business.

Three-months ended September 30		Rubber Solutions	Engineered Products	Total
<i>In thousands of US dollars</i>				
Gross Profit	2019	5,696	4,889	10,585
	2018	5,110	4,452	9,562
Increase (decrease) \$		586	437	1,023
% of net sales	2019	15.9	11.8	13.7
	2018	13.7	11.0	12.3
Nine-months ended September 30		Rubber Solutions	Engineered Products	Total
<i>In thousands of US dollars</i>				
Gross Profit	2019	19,615	15,893	35,508
	2018	16,298	18,387	34,685
Increase (decrease) \$		3,317	(2,494)	823
% of net sales	2019	17.3	12.4	14.7
	2018	14.9	14.1	14.4

Rubber Solutions

Gross profit at Rubber Solutions for the three-month period ended September 30, 2019 increased by 11.5% to \$5,696 (15.9% of net sales), up from \$5,110 (13.7% of net sales) in the comparable period in 2018. Gross profit for the nine-month period ended September 30, 2019 increased by 20.4% to \$19,615 (17.3% of net sales), up from \$16,298 (14.9% of net sales) in the comparable period in 2018. For both periods ended September 30, 2019, these increases were principally due to higher volume, for reasons discussed above, and improved labor efficiencies.

Engineered Products

Gross profit in the Engineered Products segment for the three-month period ended September 30, 2019 was \$4,889 (11.8% of net sales), up \$437 from \$4,452 (11.0% of net sales) in the comparable period in 2018. The increases in gross profit and gross profit as a percentage of net sales were partially due to higher net sales in the anti-vibration business. Despite the decrease in net sales in the defense business, gross profit was broadly similar to the comparable period in 2018 due to a favorable product mix.

Gross profit in the Engineered Products segment for the nine-month period ended September 30, 2019 was \$15,893 (12.4% of net sales), down \$2,494 from \$18,387 (14.1% of net sales) in the comparable period in 2018. The decreases in gross profit and gross profit as a percentage of net sales were principally due to lower net sales in the anti-vibration business, which was partly offset by higher gross profit in the defense business as a result of increased net sales and a favorable product mix.

OPERATING EXPENSES

Consolidated operating expenses for the three-month period ended September 30, 2019 increased by \$1,050. The increase was primarily due to higher administration costs (including compensation costs, professional fees, office expenses and discretionary spending), higher research and development ("R&D") costs. In addition, a foreign exchange loss (compared to a gain in the comparable period in 2018), resulted in an unfavorable net change of \$304. As a percentage of net sales, operating expenses for the three-month period ended September 30, 2019 increased to 10.3%, from 8.9% in the same period in 2018.

Consolidated operating expenses for the nine-month period ended September 30, 2019 decreased by \$697. The decrease was primarily due to a foreign exchange gain (compared to a loss in the comparable period in 2018), resulting in a favorable net change of \$1,113. In addition, the property damage insurance settlement associated with a fire that occurred at the plant in Scotland Neck further reduced costs. These favorable changes were partly offset by higher administration costs. As a percentage of net sales, operating expenses for the nine-month period ended September 30, 2019 decreased to 9.2%, from 9.6% in the same period in 2018.

Three-months ended September 30 <i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	2019	2,224	4,708	1,027	7,959
	2018	1,967	4,179	763	6,909
Increase (decrease) \$		257	529	264	1,050
% of net sales	2019	6.2	11.4	N/A	10.3
	2018	5.3	10.3	N/A	8.9
<hr/>					
Nine-months ended September 30 <i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	2019	5,838	13,670	2,775	22,283
	2018	6,068	12,903	4,009	22,980
Increase (decrease) \$		(230)	767	(1,234)	(697)
% of net sales	2019	5.1	10.6	N/A	9.2
	2018	5.5	9.9	N/A	9.6

Rubber Solutions

Rubber Solutions' operating expenses for the three-month period ended September 30, 2019 increased by \$257 to \$2,224. The increase was primarily due to higher administration costs and higher R&D costs, partly offset by a foreign exchange gain compared to a loss in the comparable period.

Rubber Solutions' operating expenses for the nine-month period ended September 30, 2019 decreased by \$230 to \$5,838. The decrease was primarily due to an insurance payout related to a January 2019 fire at our Scotland Neck, North Carolina facility and higher R&D tax credits, partly offset by increased administration costs. The Company recorded an impairment charge of \$366 related to assets lost or damaged in the fire and received a payment of \$1,159 to cover expenses and damage to assets. The Company moved quickly to minimize interruption to its customers and production at the Scotland Neck facility resumed in February 2019.

Engineered Products

Engineered Products' operating expenses for the three-month period ended September 30, 2019 increased by \$529 to \$4,708. Operating expenses for the nine-month period ended September 30, 2019 increased by \$767 to \$13,670. For both periods, these increases were primarily due to higher administration and R&D costs.

Unallocated Corporate Costs

Unallocated corporate costs for the three-month period ended September 30, 2019 increased by \$264 to \$1,027. The increase was principally due to a foreign exchange loss (compared to a gain in the comparable period) resulting in an unfavorable net change of \$405, partially offset by lower administration costs principally due to lower compensation costs.

Unallocated corporate costs for the nine-month period ended September 30, 2019 decreased by \$1,234 to \$2,775. The decrease was principally due to a foreign exchange gain (compared to a loss in the comparable period) resulting in a favorable net change of \$1,100 and lower administration costs, principally due to lower compensation costs, that were partly offset by \$645 of additional professional fees related to the upcoming merger between AirBoss' defense business and Critical Solutions International, Inc. On a year-to-date basis, \$977 of professional fees have been incurred in relation to this merger.

MD&A (cont'd)

FINANCE COSTS

Three-months ended September 30 <i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Finance costs	2019	1,104	82	(285)	901
	2018	1,193	—	(450)	743
Increase (decrease) \$		(89)	82	165	158
% of net sales	2019	3.1	0.2	N/A	1.2
	2018	3.2	—	N/A	1.0
<hr/>					
Nine-months ended September 30 <i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Finance costs	2019	3,254	256	(529)	2,981
	2018	3,539	1	(1,627)	1,913
Increase (decrease) \$		(285)	255	1,098	1,068
% of net sales	2019	2.9	0.2	N/A	1.2
	2018	3.2	—	N/A	0.8

Finance costs for the three- and nine-month periods ended September 30, 2019 were \$901 (2018: \$743) and \$2,981 (2018: \$1,913), respectively. The increases were primarily due to an unrealized mark-to-market loss on an interest rate swap (compared to a gain in the comparable periods) and the inclusion of interest expense from leases primarily related to the adoption of IFRS 16 (discussed below in Significant Accounting Policies).

INCOME TAX EXPENSE

The Company recorded an income tax expense of \$200 in the three-month period ended September 30, 2019 (2018: \$563) for an effective income tax rate of 11.6% (29.5% in 2018). The effective tax rate was reduced in the current quarter due to recognition of tax credits earned, but not recognized, in prior years.

The Company recorded an income tax expense of \$2,482 in the nine-month period ended September 30, 2019 (2018: \$2,587) for an effective income tax rate of 24.2% (26.4% in 2018).

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.

NET INCOME AND EARNINGS PER SHARE

Net income totaled \$1,525 for the three-month period ended September 30, 2019, compared with \$1,347 for the comparable period in 2018. The basic and fully diluted net earnings per share in the quarter were \$0.07 (2018 - \$0.06 basic and fully diluted). The increase was primarily attributable to higher gross profit and lower income tax expense, partly offset by higher operating expenses and finance costs.

Net income totaled \$7,762 for the nine-month period ended September 30, 2019, compared with \$7,205 for the comparable period in 2018. The basic and fully diluted net earnings per share in the nine-month period were \$0.33 (2018 - \$0.31 basic and fully diluted). The increase was primarily attributable to higher gross profit and lower operating expenses partly offset by higher finance costs.

QUARTERLY INFORMATION

<i>In thousands of US dollars</i>		Net income per share		
Quarter Ended	Net Sales	Net Income	Basic	Diluted
2019				
September 30, 2019	77,173	1,525	0.07	0.07
June 30, 2019	82,616	3,311	0.14	0.14
March 31, 2019	82,575	2,926	0.13	0.12
2018				
December 31, 2018	76,484	1,331	0.06	0.06
September 30, 2018	77,773	1,347	0.06	0.06
June 30, 2018	81,797	2,660	0.11	0.11
March 31, 2018	80,549	3,198	0.14	0.14
2017				
December 31, 2017	74,214	3,772	0.17	0.16

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its remaining 2019 operating cash requirements, including required working capital investments, capital expenditures and scheduled debt repayments from cash on hand, cash flow from operations and its committed borrowing facilities. The Company's operating revolving loan facility provides financing up to \$60 million (2018: \$60 million). No amount was drawn against this facility at September 30, 2019.

For the nine-month period ended September 30, 2019, cash of \$12,033 was provided by operations, (2018: \$6,101 provided), \$13,035 was used in investing activities (2018: \$3,789), and \$8,013 was used in financing activities (2018: \$6,367). Cash and cash equivalents decreased by \$8,963 from \$17,862 to \$8,899, adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

For the nine-month period ended September 30, 2019, cash provided by operating activities increased by \$5,932 compared with the same period in 2018. The increase was due to \$3,920 less cash used for working capital needs, higher net income of \$557, higher non-cash expenses of \$1,302, and lower tax payments of \$375, that were partially offset by higher interest payments of \$222.

Cash used for working capital for the nine-month period ended September 30, 2019 decreased to \$5,581 (2018: \$9,501) as a result of the following factors:

- Cash from accounts receivable was \$563; of which \$1,739 was attributable to Rubber Solutions related to lower net sales, that was partially offset by \$1,176 used by Engineered Products due to timing of collections, particularly within the anti-vibration business;
- Cash used for Inventory was \$4,536; of which \$5,297 was attributable to the Engineered Products segment related to anticipated sales and timing of delivery schedules, that was partially offset by a \$761 decrease in inventory at Rubber Solutions primarily reversing a buildup of inventory at December 31, 2018 in anticipation of increased shipments in early January 2019;
- Cash used for prepaid expenses was \$1,490, with the increase over the prior year primarily related to an increase in insurance premiums; and
- Cash from accounts payable was \$15.

Investing Activities

Property, Plant and Equipment

For the nine-month period ended September 30, 2019, the following investments were made:

- Rubber Solutions invested \$8,697 in property plant and equipment. Of this, \$1,691 was invested in growth initiatives, \$1,347 was to replace equipment damaged in the fire that occurred at the Scotland Neck, North Carolina facility in January 2019, \$202 on cost savings initiatives, and the remaining spend was to replace or upgrade existing property, plant and equipment, including the new R&D laboratory facility in Kitchener, Ontario; and
- Engineered Products invested \$2,900 in property plant and equipment. Of this, \$1,391 was invested in growth initiatives, \$386 on cost savings initiatives, and the remaining spend was to replace or upgrade existing property, plant and equipment.

Intangible Assets

For the nine-month period ended September 30, 2019, the Company invested \$1,438 in intangible assets primarily related to development costs for new enterprise reporting software, new products for the defense business, and a back-office productivity suite.

Financing activities

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

During March 2019, the calculation of one of the loan covenants on its revolving and term loan credit facilities was amended on a prospective basis.

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

During the nine-month period ended September 30, 2019, the Company made principal repayments of \$2,813 (2018: \$3,005) pursuant to the term loans under the credit facility.

The Company paid dividends of \$3,677 during the nine-month period ended September 30, 2019 (2018: \$3,805).

Government assistance

During the quarter the Company recognized grants of \$41 (2018: \$30) to support certain initiatives that were offset against expenses; year-to-date \$88 (2018: \$113).

Scientific research and investment tax credits of \$161 (2018: \$321) were recognized in the quarter and research and development costs were reduced accordingly; year-to-date \$493 (2018: \$517).

Dividends

A quarterly dividend of CAD \$0.07 per share was declared on August 13, 2019 and paid on October 15, 2019. Total annual dividends declared during 2018 were CAD \$0.28 per common share.

MD&A (cont'd)

Outstanding shares

As at November 6, 2019, the Company had 23,392,442 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

During the quarter, the Company paid rent for the corporate office of CAD \$45 (2018: CAD \$45) to a company controlled by the Chairman of the Company; year to date CAD \$135 (2018: CAD \$135).

During the quarter, the Company paid fees for the use of a facility in South Carolina of approximately \$6 (2018: \$5); year-to-date \$21 (2018: \$18) to a company in which the Chairman is an officer.

On November 24, 2014, the Company provided a share purchase loan of CAD \$1,000 to the Vice-Chair to purchase common shares of the Company. On December 20, 2016, the Company provided a share purchase loan of CAD \$250 to the Chief Financial Officer. On March 28, 2018, the Company provided a share purchase loan of CAD \$500 to the President and Chief Operating Officer. On June 28, 2019, the Company provided share purchase loans of CAD \$300 to the Executive Vice President, Corporate; CAD \$92 to the President and Chief Operating Officer; and CAD \$100 to the Vice President Human Resources. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or the fifth anniversary of the issuance date. All share purchase loans issued prior to 2019 bear interest at 1% annually and all subsequent loans share purchase loans bear interest at 2% annually. In all cases, loans are full recourse and interest is due and payable semi-annually. In total, 220,685 shares of the Company having a fair value of \$1,300 were pledged as collateral on these loans. At September 30, 2019, the loan receivables of \$1,699, including accrued interest of \$5, were included in other assets, and trade and other receivables, including derivatives. During the quarter, interest of \$nil (2018: \$nil) was paid; year to date \$7 (2018: \$5).

SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies in Note 3 to the annual consolidated financial statements for the year ended December 31, 2018, have been applied consistently to all periods presented in these interim condensed consolidated financial statements for the period ended September 30, 2019.

Recently adopted accounting standards and policies

The Company has adopted IFRS 16, Leases ("IFRS 16") effective January 1, 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

The Company leases buildings, vehicles and equipment. As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. However, the Company has elected not to recognize right-of-use assets and lease liabilities for some leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term. The Company presents right-of-use assets in the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below.

<i>In thousands of US dollars</i>	Property	Equipment	Vehicles	Total
Balance at January 1, 2019	7,020	342	125	7,487
Balance at September 30, 2019	6,061	274	636	6,971

The Company presents lease liabilities in "loans and borrowings" in the statement of financial position.

Significant accounting policies

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is presented in investment property. The right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Company's accounting policies.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company applied judgment to determine the lease term for a lease contract running month-to-month, which significantly affects the amount of lease liability and right-of-use asset recognized.

Transition

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application adjusted by the amount of any prepaid or accrued lease payments.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impact on financial statements

Impact on transition

On transition to IFRS 16, the Company recognized additional right-of-use assets and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition is summarized below.

<i>In thousands of US dollars</i>	January 1, 2019
Right-of-use assets	7,244
Deferred tax asset	285
Write-off accrued rent	(199)
Lease liabilities	8,632
Retained earnings	(904)

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied was 4.6%.

<i>In thousands of US dollars</i>	January 1, 2019
Operating lease commitment at December 31, 2018	9,683
Discounted using the incremental borrowing rate at 1 January 2019	8,638
Recognition exemption for leases of low-value assets	(1)
Recognition exemption for leases with less than 12 months of lease term at transition	(5)
	8,632
Finance lease liabilities recognized at December 31, 2018	235
Lease liabilities recognized at January 1, 2019	8,867

Impact on the period

As at September 30, 2019, the Company recognized \$6,971 of right-of-use assets and \$8,295 of lease liabilities. In relation to these leases the Company has recognized depreciation and interest costs. During the period, the Company recognized \$367 of depreciation charges (year-to-date \$1,068) and \$99 of interest costs (year-to-date \$300).

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

FINANCIAL INSTRUMENTS

Foreign exchange hedge

At September 30, 2019, the Company had contracts to sell USD \$14,701 from October 2019 to September 2020 for Canadian dollars ("CAD") \$19,600. The fair value of these contracts, representing an unrealized gain of \$99, are included in trade and other receivables, including derivatives on the statement of financial position. For the quarter ended September 30, 2019, the unrealized changes in fair value, representing a loss of \$258 (2018: gain of \$192), are recorded on the statement of profit as other income (expense); year- to-date gain of \$896 (2018: loss of \$283).

At December 31, 2018, the Company had contracts to sell US \$25,427 from January 2019 to October 2019 for CAD \$33,601. The fair value of these contracts, representing an unrealized loss of \$797 are included in trade and other payables, including derivatives on the statement of financial position.

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. (\$28.7 million as at September 30, 2019) amortizing down to \$24.3 million at maturity. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%. The swap agreement matures on December 10, 2020.

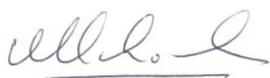
During the quarter, the interest income on the swap agreement was \$45 (2018: \$32); year-to-date \$164 (2018: \$33).

At September 30, 2019, the fair value of this agreement, representing a loss of \$23 (2018: gain of \$684), is included in loans and borrowings on the statement of financial position. For the quarter ended September 30, 2019, the change in the fair value, representing a loss of \$53 (2018: gain of \$45), is recorded on the statement of profit as finance costs; year-to-date loss of \$457 (2018: gain of \$419).

At December 31, 2018, the fair value of this agreement, representing a gain of \$434, was included in loans and borrowings on the statement of financial position.

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

November 6, 2019



Gren Schoch
Chairman and Chief Executive Officer



Daniel Gagnon
Chief Financial Officer