

## 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 10, 2020 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, 2020 and the MD&A and Audited Consolidated Financial Statements and Notes for the year ended December 31, 2019. 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](http://www.sedar.com) and on the Company's website at [www.airbossofamerica.com](http://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; impact of global health situations; potential product liability and warranty claims and equipment malfunction. COVID-19 could also negatively impact the Company's operations and financial results in future periods. There is increased uncertainty associated with future operating assumptions and expectations as compared to prior periods. As such, it is not possible to estimate the impacts COVID-19 will have on the Company's financial position or results of operations in future periods. While the direct impacts of COVID-19 are not determinable at this time, the Company has undrawn credit facility as at September 30, 2020 that can provide financing up to \$60,000. 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](http://www.sedar.com).*

**OVERALL PERFORMANCE****Recent Highlights****(in US dollars)**

- Second consecutive quarter of record EBITDA<sup>2</sup>, up 522.8% versus the third quarter of 2019 to \$37.3 million;
- Increased diluted EPS and adjusted diluted EPS<sup>2</sup> by 571.4% and 487.5% respectively, versus the third quarter of 2019;
- Grew free cash flow<sup>2</sup> by \$39.5 million to \$38.5 million (or \$1.64 per share) for the nine-month period ended September 30, 2020;
- Reduced net debt<sup>2</sup> to TTM EBITDA<sup>2</sup> from 1.85 times at December 31, 2019 to 0.25 times at September 30, 2020, providing the Company with enhanced flexibility to act on both organic and inorganic growth opportunities;
- Awarded and commenced delivery against a contract from the U.S. Department for Health and Human Services ("HHS") worth up to \$121.0 million for the manufacture and sale of 50,000 FlexAir™ PAPR systems ("PAPR's"), 3,000,000 filters, and related accessories;
- Completed acquisition of 100% ownership of AirBoss Defense Group ("ADG") effective October 26, 2020 by purchasing 45% minority interest held by Critical Solutions Holdings, LLC;
- Announced a two-year extension to the existing Husky Long-Term Contract with Army Contracting Command Warren, with \$35.6 million of funding set aside for anticipated volumes of Husky 2G support equipment to be procured over the extended period of performance; and
- Announced that AirBoss Defense Group was awarded an additional \$22.0 million in contracts across its survivability portfolio for multiple parties in North America and internationally.

**Selected Financial Information**

<i>In thousands of US dollars, except share data</i> <i>(unaudited)</i>	Three-months ended September 30		Nine-months ended September 30	
	2020	2019	2020	2019
<b>Financial results:</b>				
Net sales	162,745	77,173	369,392	242,364
Net income	21,160	1,525	36,330	7,762
Profit attributable to owners of the Company	11,646	1,525	17,801	7,762
Adjusted Profit attributable to owners of the Company <sup>2</sup>	11,681	1,834	20,164	8,160
Net income per share (US\$)				
– Basic	US\$0.50	US\$0.07	US\$0.76	US\$0.33
– Diluted	US\$0.47	US\$0.07	US\$0.74	US\$0.33
Adjusted Net income per share <sup>2</sup> (US\$)				
– Basic	US\$0.50	US\$0.08	US\$0.86	US\$0.35
– Diluted	US\$0.47	US\$0.08	US\$0.83	US\$0.35
EBITDA <sup>2</sup>	37,335	5,995	70,400	23,249
Adjusted EBITDA <sup>2</sup>	37,370	6,304	72,763	23,067
Net cash provided by operating activities	18,137	12,555	47,869	12,033
Dividends declared per share (CAD\$)	CAD\$0.07	CAD\$0.07	CAD\$0.21	CAD\$0.21
Capital additions	4,544	5,635	10,561	13,585
<b>Financial position:</b>	<b>September 30, 2020</b>		<b>December 31, 2019</b>	
Total assets	357,359		249,664	
Term loan and other debt <sup>1</sup>	76,953		74,144	
Total equity	195,916		125,979	
Outstanding shares (#) *	26,908,802		23,392,442	

\* at November 10, 2020

<sup>1</sup>Term loan and other debt as at September 30, 2020 and December 31, 2019 include lease liabilities of \$13,881 and \$14,542, respectively.

## MD&A (cont'd)

### <sup>2</sup>Non-IFRS Financial Measures

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

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EBITDA (Earnings before interest income, interest expense, income taxes, depreciation, amortization and impairment)
Adjusted EBITDA
Adjusted profit attributable to owners of the Company
Adjusted net income per share
Free cash flow
Net debt

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The above terms are non-IFRS financial measures and are derived from the consolidated financial statements but do not have a standardized meaning prescribed by IFRS and are not necessarily comparable to similar measure presented by other issuers.

The Company discloses these terms for use in financial measurements made by interested parties and investors to monitor the ability of the Company to generate cash from operations for debt service, to finance working capital and capital expenditures, potential acquisition and to pay dividends. These terms are 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 and Adjusted EBITDA is presented below:

<i>In thousands of US dollars</i>	Three-months ended September 30		Nine-months ended September 30	
	(unaudited) <b>2020</b>	2019	(unaudited) <b>2020</b>	2019
<b>EBITDA:</b>				
Profit	<b>21,160</b>	1,525	<b>36,330</b>	7,762
Finance costs	<b>723</b>	901	<b>2,694</b>	2,981
Depreciation, amortization and impairment	<b>8,387</b>	3,369	<b>16,635</b>	10,024
Income tax expense	<b>7,065</b>	200	<b>14,741</b>	2,482
EBITDA	<b>37,335</b>	5,995	<b>70,400</b>	23,249
AirBoss Defense Group ("ADG") transaction fees	<b>35</b>	309	<b>2,363</b>	977
Insurance provision	—	—	—	(1,159)
Adjusted EBITDA	<b>37,370</b>	6,304	<b>72,763</b>	23,067

A reconciliation of net income to Adjusted profit attributable to owners of the Company and Adjusted net income per share is presented below:

<i>In thousands of US dollars</i>	Three-months ended September 30		Nine-months ended September 30	
	(unaudited) <b>2020</b>	2019	(unaudited) <b>2020</b>	2019
<b>Adjusted profit attributable to owners of the Company:</b>				
Profit attributable to owners of the Company	<b>11,646</b>	1,525	<b>17,801</b>	7,762
ADG transaction fees	<b>35</b>	309	<b>2,363</b>	977
Insurance provision	—	—	—	(579)
Adjusted profit attributable to owners of the Company	<b>11,681</b>	1,834	<b>20,164</b>	8,160
Basic weighted average number of shares outstanding	<b>23,401</b>	23,392	<b>23,398</b>	23,392
Diluted weighted average number of shares outstanding	<b>24,600</b>	23,449	<b>24,193</b>	23,442
<b>Adjusted net income per share (in US dollars):</b>				
Basic	<b>0.50</b>	0.08	<b>0.86</b>	0.35
Diluted	<b>0.47</b>	0.08	<b>0.83</b>	0.35

## MD&amp;A (cont'd)

A reconciliation of loans and borrowings to Net debt is presented below:

In thousands of US dollars	September 30, 2020 (unaudited)	December 31, 2019
Net debt:		
Loans and borrowings - current	10,198	5,358
Loans and borrowings - non-current	66,755	68,786
Leases included in loans and borrowings	(13,881)	(14,542)
Cash and cash equivalents	(43,091)	(121)
Net debt	19,981	59,481

A reconciliation of net cash provided by (used in) operating activities to free cash flow is presented below:

In thousands of US dollars	Three-months ended September 30 (unaudited)		Nine-months ended September 30 (unaudited)	
	2020	2019	2020	2019
Free cash flow:				
Net cash provided by (used in) operating activities	18,137	12,555	47,869	12,033
Acquisition of property, plant and equipment	(4,065)	(5,010)	(9,174)	(11,597)
Acquisition of intangible assets	(107)	(505)	(716)	(1,438)
Proceeds from government grant	—	—	500	—
Free cash flow	13,965	7,040	38,479	(1,002)
Basic weighted average number of shares outstanding	23,401	23,392	23,398	23,392
Diluted weighted average number of shares outstanding	24,600	23,449	24,193	23,442
Free cash flow per share (in US dollars):				
Basic	0.60	0.30	1.64	(0.04)
Diluted	0.57	0.30	1.59	(0.04)

## OVERVIEW

The third quarter has advanced the Company's financial position despite the continued impact of the COVID-19 pandemic, now in its second wave. The second wave continues to create challenges globally, yet AirBoss has been able to take advantage of opportunities supporting its strong trajectory for the quarter. The Company's strong third quarter results were driven by the continued delivery and completion of a large personal protective equipment ("PPE") award from the U.S. Federal Emergency Management Agency ("FEMA"), which was completed in July. This strong performance was further augmented by the commencement of deliveries under the previously announced PPE contract for HHS which provided a strong financial backdrop to offset the COVID-19 related impact on the Rubber Solutions and Engineered Products segments.

As many customers, including the "Big Three" automakers, tire makers and related suppliers, began to ramp up operations towards the end of June, AirBoss saw a meaningful recovery in its operations that carried through the third quarter. Both the Rubber Solutions and Engineered Products segments saw sustained recoveries that approached levels of over 85% of pre-COVID volumes. As stated previously, the timing for a full recovery in volumes will be subject, at least in part, to a stable and sustained re-opening of businesses across North America, especially in the U.S. which currently is seeing a rise in cases, and which remains a key market for the Company.

In the case of the Engineered Products segment, the Company continued to focus on supporting the volume increase realized in the automotive sector while managing variable costs, focused on sustaining a stable hourly workforce. Management also continued to sustain the production of certain molded defense products at the Auburn Hills, MI facility, as well as FlexAir™ PAPR systems ("PAPR's"), which supported the return to work for some staff as well as continued execution against existing defense contracts. These measures helped sustain volume and offset the impact of volatility in demand from the anti-noise, vibration and harshness business, which saw increased volumes during the quarter compared to the prior quarter. The Engineered Products segment did see a significant recovery in volumes, especially in late August and September and ahead of industry levels given AirBoss' focus on SUV, light truck and mini-van platforms. AirBoss also continues to push ahead with best in class automation with the installation of a new robotic work cell which is in full production as well as the diversification of its product lines into sectors adjacent to the automotive space.

In addition to the US\$121 million order for PAPR's from HHS secured after the second quarter, ADG has continued to build momentum as it was awarded a US\$35.6 Million Contract Extension for Husky 2G Protected Payload and Route Clearance Payloads and an additional \$22 million in awards across ADG's survivability portfolio. ADG and its predecessor companies have been producing PAPR's since 1985 and are continuing to deliver on the HHS contract. Securing this second large contract provided a further validation for the creation of ADG, which married AirBoss' class-leading CBRN protective solutions with

## MD&amp;A (cont'd)

Critical Solutions International Inc.'s ("CSI") marketing strength and strong relationships with governments and militaries around the world. AirBoss' focus on supply chain management and agile manufacturing capabilities that supported the successful delivery of the FEMA contract is expected to pay dividends as deliveries of the HHS contract will continue to flow through the balance of the year and into the first quarter of 2021. These further awards will help augment the traction and momentum and is expected to help offset possible further COVID-19 related weakness which may still impact the Rubber Solutions and Engineered Products businesses during the balance of 2020.

Management believes that the future sourcing of personal protective equipment for first responders and medical professionals will continue to be become a necessity for front line workers in response to the COVID-19 pandemic. As a part of overall future emergency preparedness planning, management expects a more unified and streamlined approach aimed at reducing complexity, shortening acquisition times and building strategic stockpiles, compared to the fragmented and complex distributor relationship arrangements seen previously. This is expected to be a future driver for the business and ADG is modifying its business development approach accordingly. Beyond this, AirBoss continues to target traditional defense contracts, potentially valued at hundreds of millions of dollars globally over the next several years, for its broader portfolio of survivability solutions. This includes opportunities for its new low-burden mask as well as next-generation products like the Blast Gauge™ blast overpressure solution, Bandolier and Rollover Detection Warning System (RDWS).

The Company remains in a sound financial position. The strong performance of ADG is facilitating accelerated payback of the US\$60 million Vendor TakeBack Note, with \$25 million paid back as of September 30, 2020 and approximately US\$15 million of that paid back in the third quarter. This is supporting increased balance sheet strength and will provide management enhanced flexibility to execute opportunistically on both organic and inorganic growth initiatives, particularly as potential acquisition targets may lack the balance sheet strength to weather a prolonged downturn. AirBoss believes it is well positioned to further leverage its significant recent investments in innovation, capacity expansion, and innovative solutions as industry conditions improve.

Despite the continued headwinds associated with COVID-19, the Company's longer-term priorities remain intact and include:

1. Growing the core Rubber Solutions segment by positioning it as a specialty supplier of choice in the consolidating North American market, with a growing focus on building defensible leadership positions in selected compounds;
2. Capitalizing on ADG's enhanced scale and capabilities to pursue an array of growth and value-creation opportunities in the broader survivability solutions segment serving both defense and first responder markets;
3. Driving improved performance from Engineered Products 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 adding new compounds and products, technical capabilities, and geographic reach into selected North American and international markets.

As before, management remains dedicated to the creation of long-term value for all stakeholders through a combination of strategic initiatives that both drive organic growth and support possible transactions.

## RESULTS OF OPERATIONS - For the period ended September 30, 2020 compared to 2019

## NET SALES

Consolidated net sales for the three-month period ended September 30, 2020 increased by 110.9% to \$162,745 compared with the same period in 2019 due largely to PAPR sales under the FEMA and HHS contracts, supported by the completion of the merger between the AirBoss Defense business and CSI on January 1, 2020 (the "ADG transaction"). This increase was partially offset by softness in the Rubber Solutions segment, primarily due to the impact of the COVID-19 pandemic.

Consolidated net sales for the nine-month period ended September 30, 2020 increased by 52.4% to \$369,392 compared with the same period in 2019 due largely to the FEMA and HHS contracts, supported by the completion of the ADG transaction. This increase was partially offset by softness in the Rubber Solutions and Engineered Products segments, primarily due to the impact of the COVID-19 pandemic.

Three-months ended September 30 <i>In thousands of US dollars</i>	Rubber Solutions	Engineered Products	AirBoss Defense Group	Inter-segment net sales	Total	
Net Sales	<b>2020</b>	<b>29,757</b>	<b>37,828</b>	<b>108,430</b>	<b>(13,270)</b>	<b>162,745</b>
	2019	33,371	31,709	16,794	(4,701)	77,173
Increase (decrease) \$		(3,614)	6,119	91,636	(8,569)	85,572
Increase (decrease) %		(10.8)	19.3	545.6	182.3	110.9

Nine-months ended September 30 <i>In thousands of US dollars</i>	Rubber Solutions	Engineered Products	AirBoss Defense Group	Inter-segment net sales	Total	
Net Sales	<b>2020</b>	<b>87,362</b>	<b>81,407</b>	<b>225,509</b>	<b>(24,886)</b>	<b>369,392</b>
	2019	104,828	95,340	56,993	(14,797)	242,364
Increase (decrease) \$		(17,466)	(13,933)	168,516	(10,089)	127,028
Increase (decrease) %		(16.7)	(14.6)	295.7	68.2	52.4

## MD&amp;A (cont'd)

**Rubber Solutions**

For the three-month period ended September 30, 2020, net sales in the Rubber Solutions segment decreased by 10.8% to \$29,757, from \$33,371 in the comparable period in 2019. Volume was down 3.9% with smaller reductions across the majority of sectors with continued ramp up of most customer's operations and residual softness due to the COVID-19 pandemic. Tolling volume was up 8.7% while non-tolling was down 8.2%. 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. Volumes and sales improved progressively month over month during the quarter.

For the nine-month period ended September 30, 2020, net sales in the Rubber Solutions segment decreased by 16.7% to \$87,362, from \$104,828 in the comparable period in 2019. Volume was down 11.8% across the majority of sectors as a result of either full or partial shutdown of customers' operations due to the COVID-19 pandemic earlier this year. Tolling volume was down 15.8% while non-tolling volume was down 10.7% from the comparable period in 2019.

**Engineered Products**

Net sales in the Engineered Products segment for the three-month period ended September 30, 2020 increased by 19.3% to \$37,828, from \$31,709 in the comparable period in 2019. The increase was due to a pivot to support the manufacturing of certain defense products including PAPR's, while automotive product sales were consistent with the comparable period in 2019 despite the shut-down within the automotive industry in Q2 2020 related to COVID-19. Compared to the second quarter of 2020, volume and sales improved progressively month-over-month as the automotive sector showed signs of recovery, especially in the light truck sector.

Net sales in the Engineered Products segment for the nine-month period ended September 30, 2020 decreased by 14.6% to \$81,407, from \$95,340 in the comparable period in 2019. The decrease was across all product lines as a result of the COVID-19 pandemic, which resulted in the partial shutdown during Q2 2020 of the Auburn Hills, Michigan plant.

**AirBoss Defense Group**

For the three-month period ended September 30, 2020, net sales in the AirBoss Defense Group segment increased by 545.6% to \$108,430, from \$16,794 in the comparable period in 2019. The increase was primarily the result of the large contract from FEMA (completed in late July 2020) and the commencement of the large contract from HHS, both to provide PAPR's, filters and related accessories as part of the U.S. government's response to the COVID-19 pandemic. In addition, there were higher sales of masks and boots related to other defense customers.

For the nine-month period ended September 30, 2020, net sales in the AirBoss Defense Group segment increased by 295.7% to \$225,509, from \$56,993 in the comparable period in 2019. The increase was primarily the result of the completion of the large contract from FEMA and commencement of the HHS contract noted above. In addition, there were higher sales for other products in the defense portfolio and CSI sales stemming from the ADG transaction that were not included in the comparable period in 2019.

**GROSS PROFIT**

For the three-month period ended September 30, 2020, consolidated gross profit increased by \$35,128 to \$45,713, compared with the same period in 2019, driven by higher volume from ADG and Engineered Products segments partially offset by lower volumes in the Rubber Solutions segment. Gross profit as a percentage of net sales increased to 28.1% compared with 13.7% for the same period in 2019. These increases were primarily as a result of the large ADG contract awards, supported by continued management of overhead costs in both Rubber Solutions and Engineered Products segments and government-directed wage subsidies to support businesses impacted by COVID-19.

For the nine-month period ended September 30, 2020, consolidated gross profit increased by \$60,159 to \$95,667, compared with the same period in 2019, driven by higher volume from ADG and partially offset by lower volumes in the Rubber Solutions and Engineered Products segments. Gross profit as a percentage of net sales increased to 25.9% compared with 14.7% for the same period in 2019. These increases were primarily as a result of strong ADG performance and, CSI gross profit stemming from the ADG transaction that were not included in the comparable period in 2019, in conjunction with managing overhead costs and government-directed wage subsidies.

## MD&amp;A (cont'd)

Three-months ended September 30		Rubber Solutions	Engineered Products	AirBoss Defense Group	Total
<i>In thousands of US dollars</i>					
Gross Profit	<b>2020</b>	<b>4,858</b>	<b>3,746</b>	<b>37,109</b>	<b>45,713</b>
	2019	4,917	1,911	3,757	10,585
Increase (decrease) \$		(59)	1,835	33,352	35,128
% of net sales	<b>2020</b>	<b>16.3</b>	<b>9.9</b>	<b>34.2</b>	<b>28.1</b>
	2019	14.7	6.0	22.4	13.7
Nine-months ended September 30		Rubber Solutions	Engineered Products	AirBoss Defense Group	Total
<i>In thousands of US dollars</i>					
Gross Profit	<b>2020</b>	<b>14,679</b>	<b>4,969</b>	<b>76,019</b>	<b>95,667</b>
	2019	16,015	5,204	14,289	35,508
Increase (decrease) \$		(1,336)	(235)	61,730	60,159
% of net sales	<b>2020</b>	<b>16.8</b>	<b>6.1</b>	<b>33.7</b>	<b>25.9</b>
	2019	15.3	5.5	25.1	14.7

**Rubber Solutions**

Gross profit at Rubber Solutions for the three-month period ended September 30, 2020 decreased by 1.2% to \$4,858 (16.3% of net sales) from \$4,917 (14.7% of net sales) in the comparable period in 2019. This was primarily a result of decreased volume as noted above, partially offset by managing overhead costs and supported by government-directed wage subsidies.

Gross profit for the nine-month period ended September 30, 2020 decreased by 8.3% to \$14,679 (16.8% of net sales), from \$16,015 (15.3% of net sales) in the comparable period in 2019. This was primarily a result of lower volume partially offset by managing overhead costs in conjunction with government-directed wage subsidies.

**Engineered Products**

Gross profit at the Engineered Products segment for the three-month period ended September 30, 2020 was \$3,746 (9.9% of net sales), up from \$1,911 (6.0% of net sales) in the comparable period in 2019. This was primarily a result of higher volumes and the additional defense product mix supported by operational cost containment and managing overhead costs.

Gross profit at the Engineered Products segment for the nine-month period ended September 30, 2020 was \$4,969 (6.1% of net sales), down \$235 from \$5,204 (5.5% of net sales) in the comparable period in 2019. This was primarily a result of lower volumes discussed above partially offset by operational cost containment and managing overhead costs.

**AirBoss Defense Group**

Gross profit at AirBoss Defense Group for the three-month period ended September 30, 2020 increased by 887.7% to \$37,109 (34.2% of net sales), up from \$3,757 (22.4% of net sales) in the comparable period in 2019. The increase was primarily due to higher volume associated with new business awards, while the Canadian operations were supported by government-directed wage subsidies.

Gross profit at AirBoss Defense Group for the nine-month period ended September 30, 2020 increased by 432.0% to \$76,019 (33.7% of net sales), up from \$14,289 (25.1% of net sales) in the comparable period in 2019. The increase was primarily due to higher volume driven by new business awards and CSI gross profit stemming from the ADG transaction that were not included in the comparable period in 2019, while the Canadian operations were supported by government-directed wage subsidies.

**OPERATING EXPENSES**

Consolidated operating expenses for the three-month period ended September 30, 2020 increased by \$8,806. The increase was primarily due to CSI operating expenses stemming from the ADG transaction that were not incurred in the comparable period in 2019, impairment charges of \$2,750, and higher administrative costs. These increases were offset by a foreign exchange gain (compared to a loss in the comparative period), government-directed wage subsidies to support businesses impacted by COVID-19, and lower professional fees associated with the ADG transaction. As a percentage of net sales, operating expenses for the three-month period ended September 30, 2020 were consistent with the same period in 2019.

Consolidated operating expenses for the nine-month period ended September 30, 2020 increased by \$19,619. The increase was primarily due to CSI operating expenses stemming from the ADG transaction that were not incurred in the comparable period in 2019, impairment charges of \$2,827, professional fees associated with the ADG transaction, a foreign exchange loss (compared to a gain in the comparative period), higher administrative costs and a gain from an insurance payout that was recorded in the comparative quarter. These increases were offset by government-directed wage subsidies. As a percentage of

## MD&amp;A (cont'd)

net sales, operating expenses for the nine-month period ended September 30, 2020 increased to 11.3%, from 9.2% in the same period in 2019.

Three-months ended September 30 <i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	AirBoss Defense Group	Unallocated Corporate Costs	Total
Operating Expenses	<b>2020</b>	<b>1,733</b>	<b>3,962</b>	<b>8,690</b>	<b>2,380</b>	<b>16,765</b>
	2019	1,744	2,683	2,505	1,027	7,959
Increase (decrease) \$		(11)	1,279	6,185	1,353	8,806
% of net sales	<b>2020</b>	<b>5.8</b>	<b>10.5</b>	<b>8.0</b>	<b>N/A</b>	<b>10.3</b>
	2019	5.2	8.5	14.9	N/A	10.3

Nine-months ended September 30 <i>In thousands of US dollars</i>		Rubber Solutions	Engineered Products	AirBoss Defense Group	Unallocated Corporate Costs	Total
Operating Expenses	<b>2020</b>	<b>4,989</b>	<b>9,746</b>	<b>18,712</b>	<b>8,455</b>	<b>41,902</b>
	2019	4,179	7,933	7,396	2,775	22,283
Increase (decrease) \$		810	1,813	11,316	5,680	19,619
% of net sales	<b>2020</b>	<b>5.7</b>	<b>12.0</b>	<b>8.3</b>	<b>N/A</b>	<b>11.3</b>
	2019	4.0	8.3	13.0	N/A	9.2

**Rubber Solutions**

Rubber Solutions' operating expenses for the three-month period ended September 30, 2020 decreased by \$11 to \$1,733. The change was primarily due to higher administration costs offset by government-directed wage subsidies and a larger foreign exchange gain.

Rubber Solutions' operating expenses for the nine-month period ended September 30, 2020 increased by \$810 to \$4,989. The increase was primarily due to a cost recovery that occurred during the comparative period related to a fire, resulting in an insurance payment of \$1,159 to cover expenses and damage to assets, less a \$366 charge for assets damaged in the fire and higher administration costs. These increases were partially offset by government-directed wage subsidies.

**Engineered Products**

Engineered Products' operating expenses for the three-month period ended September 30, 2020 increased by \$1,279 to \$3,962 due to higher administration costs and a \$743 impairment charge to write down assets no longer in use.

Engineered Products' operating expenses for the nine-month period ended September 30, 2020 increased by \$1,813 to \$9,746 due to higher administration costs and a \$743 impairment charge to write down assets no longer in use.

**AirBoss Defense Group**

AirBoss Defense Group's operating expenses for the three-month period ended September 30, 2020 increased by \$6,185 to \$8,690. The comparative period did not include costs from CSI of \$2,272. The remaining increase was primarily due to a \$2,006 impairment charge against product development costs, higher R&D costs, and higher administration costs, partially offset by government-directed wage subsidies and a foreign exchange gain (compared to a loss in the comparable period).

AirBoss Defense Group's operating expenses for the nine-month period ended September 30, 2020 increased by \$11,316 to \$18,712. The comparative period did not include costs from CSI of \$6,853. The remaining increase was primarily due to the impairment charge noted above, higher R&D costs, and higher administration costs, partially offset by government-directed wage subsidies and a foreign exchange gain (compared to a loss in the comparable period).

**Unallocated Corporate Costs**

Unallocated corporate costs for the three-month period ended September 30, 2020 increased by \$1,353 to \$2,380. The increase was principally due to higher administration costs that were partially offset by a foreign exchange gain (compared to a loss in the comparative period) resulting in a favorable net change of \$281, government-directed wage subsidies, and lower professional fees associated with the ADG transaction of \$35 (2019: \$309).

Unallocated corporate costs for the nine-month period ended September 30, 2020 increased by \$5,680 to \$8,455. The increase was principally due to professional fees associated with the ADG transaction of \$2,363 (2019: \$977), a foreign exchange loss (compared to a gain in the comparable period) resulting in an unfavorable net change of \$1,353, and higher administration costs, that were partially offset by government-directed wage subsidies.

## MD&A (cont'd)

### FINANCE COSTS

Finance costs for the three-month and nine-month periods ended September 30, 2020 were \$723 (2019: \$901) and \$2,694 (2019: \$2,981), respectively. The decrease was primarily due to lower interest expense on the term debt and a decrease in unrealized mark-to-market losses compared to the comparable period, partially offset by higher mark-to-market settlement payments, increased amortization of deferred finance fees, and increased lease interest expense.

### INCOME TAX EXPENSE

The Company recorded an income tax expense of \$7,065 in the three-month period ended September 30, 2020 (2019: \$200) for an effective income tax rate of 25.0% (11.6% in 2019). The effective tax rate was higher in the current quarter primarily due to temporary differences not recognized in the current quarter.

The Company recorded an income tax expense of \$14,741 in the nine-month period ended September 30, 2020 (2019: \$2,482) for an effective income tax rate of 28.9% (24.2% in 2019). The effective tax rate was higher primarily due to non-deductibility of costs related to the ADG transaction and temporary differences not recognized in the current period.

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 \$21,160 for the three-month period ended September 30, 2020, compared with \$1,525 for the comparable period in 2019. Net income totaled \$36,330 for the nine-month period ended September 30, 2020, compared with \$7,762 for the comparable period in 2019. The increase was primarily attributable to increased net sales from ADG.

Profit attributable to shareholders of the Company for the three-month period ended September 30, 2020 was \$11,646 (2019: \$1,525). Basic and fully diluted net earnings per share in the quarter were \$0.50 and \$0.47, respectively compared with \$0.07 and \$0.07, respectively, for the same periods in 2019. Profit attributable to shareholders of the Company for the nine-month period ended September 30, 2020 was \$17,801 (2019: \$7,762). Basic and fully diluted net earnings per share were \$0.76 and \$0.74, respectively compared with \$0.33 and \$0.33, respectively, for the same periods in 2019. The increase in profitability is for the reasons noted above less an allocation of a portion (45%) of AirBoss Defense Group's current period net income to a non-controlling interest.

### QUARTERLY INFORMATION

<i>In thousands of US dollars</i>				
Quarter Ended	Net Sales	Net Income	Net income per share	
			Basic	Diluted
<b>2020</b>				
<b>September 30, 2020</b>	<b>162,745</b>	<b>11,646</b>	<b>0.50</b>	<b>0.47</b>
June 30, 2020	112,450	6,675	0.29	0.27
March 31, 2020	94,197	(520)	(0.02)	(0.02)
<b>2019</b>				
December 31, 2019	85,762	2,457	0.11	0.11
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
<b>2018</b>				
December 31, 2018	76,484	1,331	0.06	0.06

## MD&amp;A (cont'd)

## RECAST REPORTING SEGMENTS

Following the merger between the AirBoss Defense business and CSI on January 1, 2020, the Company realigned the organizational and governance structures of its businesses 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. Consequently, as of January 1, 2020, the Company's operating segments are organized into the following 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 anti-noise, vibration and harshness dampening parts.
- AirBoss Defense Group - Includes the manufacture and distribution of personal protection and safety products, primarily for CBRN-E threats, and the manufacture of semi-finished rubber related products
- Unallocated Corporate Costs - Includes corporate activities and certain unallocated costs.

The Rubber Solutions segment will consist of the former rubber solutions segment, excluding the Company's industrial products business line (which is now part of the AirBoss Defense Group Segment). The Engineered Products segment will only consist of the Company's anti-vibration business. AirBoss Defense Group is owned 55% by the Company and consists of the defense businesses and the Company's industrial products business line.

Recast historical financial information regarding the results of each reportable segment is included below.

Three-months ended March 31	Rubber Solutions		Engineered Products		AirBoss Defense Group		Unallocated Corporate costs		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<i>In thousands of US dollars</i>										
Segment net sales	35,964	33,188	31,017	33,517	21,004	19,034	—	—	87,985	85,739
Inter-segment net sales	(4,570)	(4,487)	—	—	(840)	(703)	—	—	(5,410)	(5,190)
External net sales	31,394	28,701	31,017	33,517	20,164	18,331	—	—	82,575	80,549
Depreciation, amortization, and impairment	886	886	1,133	896	970	953	43	16	3,032	2,751
Segment measure of profit (loss)	3,565	3,008	(958)	1,160	2,946	2,081	(690)	(1,482)	4,863	4,767
Finance costs									956	499
Income tax expense									981	1,070
Net income									2,926	3,198
Segment assets	74,879	72,105	72,981	68,090	80,440	76,162	11,748	11,565	240,048	227,922
Segment liabilities	19,646	13,635	18,144	11,812	12,212	7,634	67,762	74,752	117,764	107,833
Capital additions	2,268	705	374	266	474	602	118	43	3,234	1,616

Three-months ended June 30	Rubber Solutions		Engineered Products		AirBoss Defense Group		Unallocated Corporate costs		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<i>In thousands of US dollars</i>										
Segment net sales	35,493	34,056	32,614	33,850	19,195	20,132	—	—	87,302	88,038
Inter-segment net sales	(4,161)	(5,164)	—	—	(525)	(1,077)	—	—	(4,686)	(6,241)
External net sales	31,332	28,892	32,614	33,850	18,670	19,055	—	—	82,616	81,797
Depreciation, amortization, and impairment	1,306	865	1,147	948	1,127	958	43	19	3,623	2,790
Segment measure of profit (loss)	5,098	3,017	(999)	722	2,696	2,307	(1,059)	(1,761)	5,736	4,285
Finance costs									1,124	671
Income tax expense									1,301	954
Net income									3,311	2,660
Segment assets	75,191	71,109	73,873	68,996	81,627	78,691	6,288	12,835	236,979	231,631
Segment liabilities	17,309	15,572	15,175	13,420	12,488	8,206	67,601	72,923	112,573	110,121
Capital additions	2,470	155	512	217	1,372	594	362	165	4,716	1,131

## MD&amp;A (cont'd)

Three-months ended September 30	Rubber Solutions		Engineered Products		AirBoss Defense Group		Unallocated Corporate costs		Total	
<i>In thousands of US dollars</i>	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Segment net sales	33,371	33,528	31,708	30,968	16,795	18,495	—	—	81,874	82,991
Inter-segment net sales	(4,337)	(4,333)	—	—	(364)	(885)	—	—	(4,701)	(5,218)
External net sales	29,034	29,195	31,708	30,968	16,431	17,610	—	—	77,173	77,773
Depreciation, amortization, and impairment	951	892	1,165	937	1,208	850	45	18	3,369	2,697
Segment measure of profit (loss)	3,173	3,227	(772)	(729)	1,251	920	(1,026)	(765)	2,626	2,653
Finance costs									901	743
Income tax expense									200	563
Net income									1,525	1,347
Segment assets	74,069	68,951	73,222	67,348	81,230	77,190	11,407	13,193	239,928	226,682
Segment liabilities	22,984	12,838	16,756	12,195	11,805	8,011	63,623	72,071	115,168	105,115
Capital additions	3,392	190	1,389	148	559	705	295	—	5,635	1,043
Three-months ended December 31	Rubber Solutions		Engineered Products		AirBoss Defense Group		Unallocated Corporate costs		Total	
<i>In thousands of US dollars</i>	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Segment net sales	32,690	32,291	29,547	31,013	28,583	18,750	—	—	90,820	82,054
Inter-segment net sales	(4,250)	(4,761)	—	—	(808)	(809)	—	—	(5,058)	(5,570)
External net sales	28,440	27,530	29,547	31,013	27,775	17,941	—	—	85,762	76,484
Depreciation, amortization, and impairment	1,049	915	1,197	898	1,395	898	51	17	3,692	2,728
Segment measure of profit (loss)	2,646	3,115	(1,578)	(758)	5,124	2,149	(1,051)	(1,502)	5,141	3,004
Finance costs									850	1,008
Income tax expense									1,834	665
Net income									2,457	1,331
Segment assets	76,720	77,160	79,471	66,197	89,226	76,301	4,247	12,870	249,664	232,528
Segment liabilities	20,560	20,376	24,314	12,821	14,153	9,507	64,658	68,341	123,685	111,045
Capital additions	2,739	2,839	8,232	855	1,596	970	548	22	13,115	4,686

## LIQUIDITY AND CAPITAL RESOURCES

## Overview

The Company expects to fund its remaining 2020 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 (2019: \$60 million). No amount was drawn against this facility at September 30, 2020.

For the nine-month period ended September 30, 2020, cash of \$47,869 was provided by operations, (2019: \$12,033), \$3,527 was used by investing activities (2019: \$13,035), and \$1,792 was used by financing activities (2019: \$8,013). Cash and cash equivalents increased by \$42,970 from \$121 to \$43,091, adjusted for the effect of exchange rate fluctuations on cash held.

## Operating activities

For the nine-month period ended September 30, 2020, cash provided by operating activities increased by \$35,836 compared with the same period in 2019. The increase was due to higher net income of \$28,568, higher non-cash expenses of \$20,860 and lower interest payments of \$133 that were partially offset by higher tax payments of \$11,619 and \$2,106 more cash used for working capital needs.

Cash used for working capital for the nine-month period ended September 30, 2020 decreased to \$7,687 (2019: \$5,581 used) as a result of the following factors:

- Cash used for accounts receivable was \$25,956. Accounts receivable increased at AirBoss Defense Group due to the delivery of FlexAir™ PAPR systems to HHS. This increase was partially offset by a \$2,674 reduction at the Rubber Solutions Segment primarily due to lower net sales; and a \$1,474 reduction at the Engineered Products segment primarily due to focused efforts to collect receivable balances.

## MD&amp;A (cont'd)

- Cash used for inventory was \$5,462, primarily for material at AirBoss Defense Group to fulfill the contract to HHS.
- Cash used for prepaid expenses was \$4,336, primarily for prepayments by AirBoss Defense Group to acquire material to fulfill the contract to HHS; and
- Cash from accounts payable was \$28,117 due to increased purchases at AirBoss Defense Group to fulfill the contract to HHS, partially offset by decreased payables at Rubber Solutions due to decreased net sales.

## Investing Activities

**Property, Plant and Equipment**

For the nine-month period ended September 30, 2020, the following investments were made:

- Rubber Solutions invested \$2,884 in property plant and equipment. Of this, \$1,736 was invested in growth initiatives and the balance was to replace or upgrade existing property, plant and equipment;
- Engineered Products invested \$3,021. Of this, \$1,444 was invested in growth initiatives and the balance was on cost savings initiatives; and
- AirBoss Defense Group invested \$3,269 in property plant and equipment. Of this, \$2,552 was invested in growth initiatives, and the balance on cost savings initiatives and to replace or upgrade existing property, plant and equipment.

**Intangible Assets**

For the nine-month period ended September 30, 2020, the Company invested \$716 in intangible assets made up of \$110 of product development costs for the defense business and the balance for new financial reporting and productivity software.

## Financing activities

The Company's current credit facility is comprised of a \$60 million revolving facility, a term loan of \$75 million 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 January 2023.

In January 2020 the Company signed an amended and restated credit agreement in connection with the merger between AirBoss' defense business and CSI. The amended and restated credit agreement matures in January 2023 and otherwise carries similar terms as the existing credit agreement. The Company paid \$717 of finance fees to extend the credit agreement, plus an additional \$128 of fees in 2019.

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

During the nine-month period ended September 30, 2020, the Company made principal repayments of \$2,813 (2019: \$2,813) pursuant to the term loans under the credit facility, and \$1,288 (2019: \$1,166) of principal payments for its lease obligations.

The Company paid dividends of \$3,617 during the nine-month period ended September 30, 2020 (2019: \$3,677).

## Government assistance

During the second quarter, the Company received a loan of \$6,422 through a US government program to fund certain payroll and business expenses of the Company's Michigan and North Carolina operations. This loan may be forgiven in full or in part if the Company meets certain criteria. The Company also received subsidies under a Canadian government program to support businesses impacted by COVID-19.

During the first quarter of 2020, the Company recognized a grant of \$500 that was offset against the cost of plant and equipment.

Scientific research and investment tax credits of \$75 (2019: \$161) were recognized in the quarter and research and development costs were reduced accordingly; year-to-date \$533 (2019: \$493).

## Dividends

A quarterly dividend of CAD \$0.07 per share was declared on August 10, 2020 and paid on October 15, 2020. Total annual dividends declared during 2019 were CAD \$0.28 per common share.

## Outstanding shares

As at November 10, 2020, the Company had 26,908,802 common shares outstanding.

## TRANSACTIONS WITH RELATED PARTIES

During the quarter, the Company paid rent for the corporate office of CAD \$45 (2019: CAD \$45) to a company controlled by the Chairman of the Company; year-to-date \$135 (2019: \$135).

During the quarter, the Company paid fees for the use of a facility in South Carolina of approximately \$4 (2019: \$6) to a company in which the Chairman is an officer; year-to-date \$20 (2019: \$21).

During 2014, the Company provided a share purchase loan of CAD \$1,000 to the former Vice-Chair to purchase common shares of the Company that was repaid in November 2019. In December 2016, the Company provided a share purchase loan of CAD \$250 to the former Chief Financial Officer that was repaid in June 2020. In March 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, General Counsel; CAD \$92 to the President and Chief Operating Officer; and CAD \$100 to the former Vice-President Human Resources that was repaid in April 2020. 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

## MD&A (cont'd)

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, 86,807 shares of the Company having a fair value of \$1,261 were pledged as collateral on these loans. At September 30, 2020, the loan receivables of \$673, including accrued interest, were included in other assets. During the quarter, interest of \$3 (2019: nil) was paid; year-to-date \$13 (2019: \$7).

### SIGNIFICANT ACCOUNTING POLICIES

The accounting policies in Note 3 to the annual consolidated financial statements for the year ended December 31, 2019, have been applied consistently to all periods presented in these interim condensed consolidated financial statements for the period ended September 30, 2020.

The AirBoss Defense Group segment has been working on the development of certain next generation portfolio products for several years. The product development pipeline has been reprioritized and revised as a result of the Company's response to the COVID-19 pandemic, particularly with respect to improved manufacturability and enhanced features of its core product portfolio. As such, the Company has determined that certain product development costs for predecessor products will no longer form part of the survivability platform. Management estimated the recoverable amount of these development costs was nil and the Company has recorded an impairment loss of \$2,007.

The Engineered Products segment will make investments to replace certain equipment to improve production efficiency. The equipment was taken out of production and is no longer in use. Management estimated the equipment's recoverable amount was nil and the Company recorded an impairment loss of \$743.

### 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, 2020, the Company had contracts to sell USD \$15,319 from October 2020 to April 2021 for Canadian dollars ("CAD") \$20,600. The fair value of these contracts, representing an unrealized gain of \$124, are included in trade and other receivables, including derivatives on the statement of financial position. For the quarter ended September 30, 2020, the unrealized changes in fair value, representing a loss of \$1,040 (2019: loss of \$258), are recorded on the statement of profit as other income (expense); year-to-date \$333 (2019: gain of \$896).

At December 31, 2019, the Company had contracts to sell US \$19,715 from January 2020 to November 2020 for CAD \$26,200. The fair value of those contracts, representing an unrealized gain of \$457 are included in trade and other receivables, including derivatives on the statement of financial position.

#### Interest rate swap

In 2017, the Company entered into an interest rate swap agreement for a notional amount of \$35,000. (\$25,200 as at September 30, 2020) amortizing down to \$24,267 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.

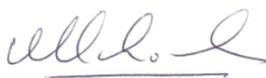
For the quarter ended September 30, 2020, interest expense on the swap agreement was \$79 (2019: income of \$45); year-to-date \$174 (2019: income of \$164).

At September 30, 2020, the fair value of this agreement, representing a loss of \$91, is included in loans and borrowings on the statement of financial position. For the quarter ended September 30, 2020, the change in the fair value, representing a gain of \$99 (2019: loss of \$53) is recorded on the statement of profit as finance costs; year-to-date loss of \$72 (2019: loss of \$457).

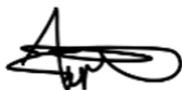
At December 31, 2019, the fair value of this agreement, representing a loss of \$19, was included in loans and borrowings on the statement of financial position.

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 10, 2020



**Gren Schoch**  
Chairman and Chief Executive Officer



**Frank Ientile**  
Chief Financial Officer