

## Notice of Disclosure of Non-Auditor Review of Interim Financial Statements

For the three-month periods ended September 30, 2020 and September 30, 2019.

Pursuant to Ontario Securities Legislations' National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company for the interim periods ended September 30, 2020 and September 30, 2019 have been prepared in accordance with IAS 34 Interim Financial reporting and are the responsibility of the Company's management.

The Company's independent auditors, KPMG LLP, have not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants Canada for a review of interim financial statements by an entity's auditor.

Dated this November 10, 2020

## Interim Condensed Consolidated Statement of Financial Position

Unaudited

<i>In thousands of US dollars</i>	<i>Note</i>	<b>September 30, 2020</b>	December 31, 2019
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		43,091	121
Trade and other receivables, including derivatives	4, 8	96,419	68,890
Prepaid expenses		9,203	4,689
Inventories	5	50,818	41,996
Current income taxes receivable	12	—	1,611
Assets available for sale		—	—
<b>Total current assets</b>		<b>199,531</b>	<b>117,307</b>
<b>Non-current assets</b>			
Property, plant and equipment		79,168	80,169
Intangible assets	3	73,270	49,935
Deferred income tax assets		3,780	846
Other assets	6	1,610	1,407
<b>Total non-current assets</b>		<b>157,828</b>	<b>132,357</b>
<b>Total assets</b>		<b>357,359</b>	<b>249,664</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Loans and borrowings	7, 13	10,198	5,358
Trade and other payables	8	75,050	43,590
Provisions	9	462	103
Current income taxes payable	12	3,599	753
<b>Total current liabilities</b>		<b>89,309</b>	<b>49,804</b>
<b>Non-current liabilities</b>			
Loans and borrowings	7	66,755	68,786
Employee benefits	14	485	510
Provisions	9	2,039	626
Deferred income tax liabilities	12	2,855	3,959
<b>Total non-current liabilities</b>		<b>72,134</b>	<b>73,881</b>
<b>Total liabilities</b>		<b>161,443</b>	<b>123,685</b>
<b>EQUITY</b>			
Share capital	10	39,641	39,579
Contributed surplus	10	14,898	1,262
Retained earnings		99,310	85,138
<b>Equity attributable to owners of the Company</b>		<b>153,849</b>	<b>125,979</b>
<b>Non-controlling interest</b>		<b>42,067</b>	<b>—</b>
<b>Total equity</b>		<b>195,916</b>	<b>125,979</b>
<b>Total liabilities and equity</b>		<b>357,359</b>	<b>249,664</b>

The notes on pages 6 to 16 are an integral part of these interim condensed consolidated financial statements.

Subsequent event (note 3)

On behalf of the Board



**P.G. Schoch**  
Director



**Robert L. McLeish**  
Director

## Interim Condensed Consolidated Statement of Profit and Comprehensive Income

Unaudited

For the three- and nine-month periods ended September 30 <i>In thousands of US dollars</i>	Note	Three-month		Nine-Month	
		2020	2019	2020	2019
Net Sales		162,745	77,173	369,392	242,364
Cost of sales		(117,032)	(66,588)	(273,725)	(206,856)
<b>Gross profit</b>		<b>45,713</b>	10,585	<b>95,667</b>	35,508
General and administrative expenses		(11,290)	(6,020)	(31,434)	(18,385)
Selling and marketing expenses		(1,954)	(1,310)	(4,863)	(3,916)
Research and development expenses		(1,304)	(492)	(2,342)	(1,260)
Other income (expenses)		(2,217)	(137)	(3,263)	1,278
		(16,765)	(7,959)	(41,902)	(22,283)
<b>Results from operating activities</b>		<b>28,948</b>	2,626	<b>53,765</b>	13,225
Finance costs	7, 8	(723)	(901)	(2,694)	(2,981)
<b>Profit before income tax</b>		<b>28,225</b>	1,725	<b>51,071</b>	10,244
Income tax expense	12	(7,065)	(200)	(14,741)	(2,482)
<b>Profit and total comprehensive income for the period</b>		<b>21,160</b>	1,525	<b>36,330</b>	7,762
<b>Profit attributable to:</b>					
Owners of the Company		11,646	1,525	17,801	7,762
Non-controlling interest		9,514	—	18,529	—
		21,160	1,525	36,330	7,762
<b>Earnings per share:</b>					
Basic	11	0.50	0.07	0.76	0.33
Diluted	11	0.47	0.07	0.74	0.33

The notes on pages 6 to 16 are an integral part of these interim condensed consolidated financial statements.

## Interim Condensed Consolidated Statement of Changes in Equity

Unaudited

Attributable to equity holders of the Company							
<i>In thousands of US dollars</i>	<i>Note</i>	Share Capital	Contributed Surplus	Retained Earnings	Total	Non- controlling interest	Total equity
Balance at January 1, 2019		39,579	1,157	80,747	121,483	—	121,483
Impact of change in accounting policy		—	—	(904)	(904)	—	(904)
Adjusted balance at January 1, 2019		39,579	1,157	79,843	120,579	—	120,579
Total comprehensive income for the period		—	—	7,762	7,762	—	7,762
<b>Contributions by and distributions</b>							
Stock options expensed		—	110	—	110	—	110
Dividends to equity holders		—	—	(3,691)	(3,691)	—	(3,691)
Total contributions by and distributions		—	110	(3,691)	(3,581)	—	(3,581)
Balance at September 30, 2019		39,579	1,267	83,914	124,760	—	124,760
<b>Contributions by and distributions</b>							
Balance at January 1, 2020		39,579	1,262	85,138	125,979	—	125,979
Total comprehensive income for the period		—	—	17,801	17,801	18,529	36,330
<b>Contributions by and distributions</b>							
Stock options expensed		—	295	—	295	—	295
Stock options exercised		(6)	(44)	—	(50)	—	(50)
Stock options forfeited		—	(270)	—	(270)	—	(270)
Acquisition and partial sale of subsidiaries	3	—	13,655	—	13,655	23,538	37,193
Share repurchases		—	—	—	—	—	—
Shares issued for director compensation		68	—	—	68	—	68
Dividends to equity holders		—	—	(3,629)	(3,629)	—	(3,629)
Total contributions by and distributions		62	13,636	(3,629)	10,069	23,538	33,607
Balance at September 30, 2020		39,641	14,898	99,310	153,849	42,067	195,916

The notes on pages 6 to 16 are an integral part of these interim condensed consolidated financial statements.

## Interim Condensed Consolidated Statement of Cash Flows

Unaudited

For the nine-month periods ended September 30 In thousands of US dollars	Note	2020	2019
<b>Cash flows from operating activities</b>			
Profit for the nine-month period ended September 30		36,330	7,762
<b>Adjustments for:</b>			
Depreciation		9,556	7,419
Amortization of intangible assets		4,252	2,239
Impairment of assets	17	2,827	366
Finance costs	7,8	2,694	2,981
Unrealized foreign exchange losses (gains)		(20)	(795)
Share-based payment expense	9,10	1,865	264
SRED tax credits		(533)	(493)
Income tax expense	12	14,741	2,482
Other		(83)	(24)
		71,629	22,201
Change in inventories		(5,462)	(4,536)
Change in trade and other receivables		(25,956)	563
Change in prepaid expenses		(4,336)	(1,490)
Change in trade and other payables		28,117	15
Change in provisions	9	(50)	(133)
Net change in non-cash working capital balances		(7,687)	(5,581)
Interest paid		(2,174)	(2,307)
Income tax paid		(13,899)	(2,280)
<b>Net cash provided by operating activities</b>		<b>47,869</b>	<b>12,033</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(9,174)	(11,597)
Acquisition of intangible assets		(716)	(1,438)
Proceeds from government grant		500	—
Proceeds from asset disposals		1,365	—
Cash acquired on acquisition of subsidiary	3	4,498	—
<b>Net cash used in investing activities</b>		<b>(3,527)</b>	<b>(13,035)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(2,813)	(2,813)
Principal payments for lease liabilities		(1,288)	(1,166)
Proceeds from new debt	13	6,432	—
Payment of debt refinancing fees		(717)	—
Repayment (issuance) of share purchase loans	6, 16	248	(364)
Exercise of options (net of withholding taxes)		(50)	—
Interest received on share purchase loans	6, 16	13	7
Dividends paid	10	(3,617)	(3,677)
<b>Net cash used in financing activities</b>		<b>(1,792)</b>	<b>(8,013)</b>
<b>Net change in cash and cash equivalents</b>		<b>42,550</b>	<b>(9,015)</b>
Cash and cash equivalents at January 1		121	17,862
Effect of exchange rate fluctuations on cash held		420	52
<b>Cash and cash equivalents at September 30</b>		<b>43,091</b>	<b>8,899</b>

The notes on pages 6 to 16 are an integral part of these interim condensed consolidated financial statements.

## Notes to Interim Condensed Consolidated Financial Statements (“CFS”)

**For the nine-month periods ended September 30, 2020 and September 30, 2019**

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

### NOTE 1 REPORTING ENTITY

AirBoss of America Corp. is a public company listed on the Toronto Stock Exchange, incorporated and domiciled in Ontario. Its registered office is located at 16441 Yonge Street, Newmarket, Ontario, Canada. AirBoss of America Corp. and its subsidiaries are together referred to, in these interim condensed consolidated financial statements, as the “Company” or “AirBoss”. The Company has operations in Canada and the US and is involved primarily in the manufacture of high-quality rubber-based products to resource, military, automotive and industrial markets (see Note 15).

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

#### List of Subsidiaries

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

Operating Subsidiaries	Jurisdiction	Ownership % 2020 (2019)
AirBoss Rubber Compounding (NC) Inc.	North Carolina	100% (100%)
SunBoss Chemicals Corp.	Ontario	100% (100%)
AirBoss Flexible Products Co.	Michigan	100% (100%)
AirBoss Defense Group Ltd. (“ADG Canada”) (formerly AirBoss Engineered Products Inc.)	Quebec	55%* (100%)
AirBoss Defense Group, LLC (“ADG USA”) (formerly Immediate Response Technologies, LLC)	Delaware	55%* (100%)
Critical Solutions International, Inc. (“CSI”)	Texas	55%* (nil)

Following the merger between the AirBoss Defense businesses 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 consists 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 only consists 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.

\* See Note 3, Acquisition of Critical Solutions International Inc. - Subsequent Event

### NOTE 2 BASIS OF PREPARATION

#### Statement of compliance

The interim condensed consolidated financial statements should be read in conjunction with the Company’s 2019 audited annual consolidated financial statements and accompanying notes.

The interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 10, 2020.

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.

**NOTE 3 ACQUISITION OF CRITICAL SOLUTIONS INTERNATIONAL, INC.**

On January 1, 2020, the Company closed the previously announced transaction to form AirBoss Defense Group through the merger of its AirBoss Defense businesses and other operations in Acton Vale, Quebec with CSI. CSI is a U.S.-based company and is the leading global supplier of route clearance vehicles; countermine capability and survivability products to U.S. and foreign military forces. This merger created a dedicated defense player better positioned to capitalize on emerging opportunities arising from the current geopolitical environment by combining AirBoss Defense's strengths in manufacturing and engineering design with CSI's expertise in global marketing and distribution of defense products. The merger also diversified the Company's product offerings and provides significant cross-selling opportunities to an increasingly global combined customer base.

The Company contributed the shares of ADG Canada and the membership interests of ADG USA to newly formed Canadian and U.S. entities that formed AirBoss Defense Group, in exchange for a note receivable of \$45 million and equity interests. Critical Solutions Holdings Inc. ("CSH") contributed all the shares of CSI and transferred a \$15 million receivable from CSI in exchange for equity interests. The net effect of the transactions is that AirBoss owns 55% of the equity in ADG and \$60 million Vendor Takeback Notes due from ADG, with the remaining 45% of the equity interest in ADG being owned by CSH. The acquisition of control of the CSI business has been accounted for as a business combination and recognized at fair value. The sale of a non-controlling interest in the Company's former ADG Canadian and US businesses resulted in a gain of \$13,655, which is recognized in other equity.

**Acquisition-related costs**

The Company incurred acquisition-related costs of \$2,363 on professional fees and due diligence costs in 2020 and \$1,401 in 2019. These costs have been included in "general and administrative expenses".

**Identifiable assets acquired and liabilities assumed**

The following table summarizes the recognized amounts of identifiable assets acquired and liabilities assumed at the acquisition date on the basis of management's preliminary estimates of fair values as follows:

*In thousands of US dollars*

<b>Fair value of assets acquired:</b>	
Cash and cash equivalents	4,498
Trade and other receivables	2,204
Prepaid expenses	184
Inventories	3,360
Property, plant, and equipment	1,335
Customer relationships	17,900
Brand	6,000
Other intangible assets	2,150
Investments	491
<b>Total assets</b>	<b>38,122</b>
<b>Value of liabilities assumed:</b>	
Trade and other payables	3,757
Vendor Takeback Note	15,000
<b>Total liabilities assumed</b>	<b>18,757</b>
<b>Net assets acquired</b>	<b>19,365</b>

The fair value of CSI's intangible assets (customer relationships, brand and patented technology) have been measured through an independent valuation. The fair value of CSI's deferred tax assets and liabilities have been measured provisionally, pending completion of an independent review.

# AirBoss of America Corp.

## Notes to CFS (cont'd)

### Goodwill

Goodwill arising from the acquisition has been recognized as follows.

*In thousands of US dollars*

<b>Consideration transferred:</b>	
NCI, based on their proportionate interest in ADG Canada, ADG USA and CSI	23,538
Paid in capital on dilution of ownership interest in ADG Canada and ADG USA	13,655
Vendor Takeback Note transferred from CSH	(15,000)
<b>Less: Fair value of net assets acquired</b>	<b>(19,365)</b>
Goodwill	2,828

Non-controlling interest ("NCI") was measured using the fair value method.

The goodwill is attributable mainly to the skills and technical talent of CSI's work force, and the synergies expected to be achieved from integrating CSI into AirBoss Defense Group.

### Subsequent Event

On October 26, 2020, the Company acquired the 45% ownership of AirBoss Defense Group held by CSH in return for 3.5 million shares of the Company and \$20 million of cash, with \$5 million paid at closing, and installments of \$5 million paid at each three-month anniversary.

## NOTE 4 TRADE AND OTHER RECEIVABLES

*In thousands of US dollars*

	September 30, 2020	December 31, 2019
Trade receivables	94,892	67,900
Less: expected credit loss	(898)	(481)
	93,994	67,419
Other receivables	2,425	1,471
	96,419	68,890

### Impairment losses

The aging of trade receivables at the reporting date was:

<i>In thousands of US dollars</i>	September 30, 2020		December 31, 2019	
	Gross	Impairment	Gross	Impairment
Within terms	71,052	—	50,875	—
Past due 0-30 days	19,714	—	12,769	—
Past due 31-120 days	4,126	(898)	4,256	(481)
	94,892	(898)	67,900	(481)

The continuity of the allowance for doubtful accounts was:

	September 30, 2020	December 31, 2019
<i>In thousands of US dollars</i>		
Balance at January 1	(481)	(399)
Impairment loss recognized	(660)	(296)
Collected	243	214
Balance	(898)	(481)

**NOTE 5 INVENTORIES**

<i>In thousands of US dollars</i>	September 30, 2020	December 31, 2019
Raw materials and consumables	35,554	30,371
Work in progress	4,148	3,435
Finished goods	17,022	11,368
Inventory in transit	645	412
	57,369	45,586
Provisions	(6,551)	(3,590)
	50,818	41,996

An inventory charge of \$2,961 (2019: charge of \$678) was included in cost of sales for the increase in provisions.

**NOTE 6 OTHER ASSETS**

<i>In thousands of US dollars</i>	Share purchase loans	Other	Total
Balance at January 1, 2019	1,284	446	1,730
Accrued interest	16	—	16
Interest received	(9)	—	(9)
Repayment of loan	(764)	—	(764)
New loan issuances	364	—	364
Effect of movements in exchange rates	70	—	70
Balance at December 31, 2019	961	446	1,407
Acquired on acquisition of subsidiary (note 3)	—	491	491
Accrued interest	8	—	8
Interest received	(13)	—	(13)
Repayment of loan	(248)	—	(248)
Effect of movements in exchange rates	(35)	—	(35)
Balance at September 30, 2020	673	937	1,610

**NOTE 7 LOANS AND BORROWINGS**

The Company is not in default under, nor has it breached any terms of, its syndicated credit agreement relating to its revolving and term loan credit facilities.

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.

During the third quarter of 2020, interest expense on the term debt was \$285 (2019: \$653), excluding gains and losses related to its interest rate swap agreement; year-to-date \$1,163 (2019: \$2,009).

**NOTE 8 DERIVATIVES NOT MEETING HEDGE ACCOUNTING CRITERIA****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.

# AirBoss of America Corp.

## Notes to CFS (cont'd)

### 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.

### NOTE 9 PROVISIONS

<i>In thousands of US dollars</i>	Site restoration	Performance and Deferred stock units	Lease incentives	Total
Balance at January 1, 2019	74	481	199	754
Impact of change in accounting policy	—	—	(199)	(199)
Provisions accrued during the year	—	313	—	313
Payments during the year	—	(133)	—	(133)
Forfeitures during the year	—	(32)	—	(32)
Foreign exchange	—	26	—	26
Balance at December 31, 2019	74	655	—	729
Less: current principal due within one year	—	(103)	—	(103)
Non-current balance at December 31, 2019	74	552	—	626
Balance at December 31, 2019	74	655	—	729
Provisions recovered during the period	—	1,887	—	1,887
Payments during the period	—	(117)	—	(117)
Forfeitures during the period	—	(47)	—	(47)
Foreign exchange	—	49	—	49
Balance at September 30, 2020	74	2,427	—	2,501
Less: current portion due within one year	—	(462)	—	(462)
Non-current balance at September 30, 2020	74	1,965	—	2,039

No legal provisions are recognized at September 30, 2020 and December 31, 2019.

### Performance Stock Units

The Company has issued certain executives with an aggregate of 197,740 performance stock units pursuant to the terms and conditions of the Omnibus Plan. Each performance award entitles the holder to receive on vesting a cash payment equal to the product of (a) the fair market value of a common share as of the vesting date and (b) a performance factor between 0.5 and 2.0, based on the level of achievement of predetermined performance objectives over the vesting period generally. The performance stock units vest three years following the grant date.

<i>Performance stock units</i>	September 30, 2020	December 31, 2019	September 30, 2019
January 1	83,998	114,908	114,908
New issuances	183,619	26,643	26,643
Forfeitures	(42,762)	(14,563)	(3,787)
Settlements	(27,115)	(42,990)	(42,990)
Balance	197,740	83,998	94,774

## Notes to CFS (cont'd)

During the quarter the Company recognized costs of \$807 (2019: costs of \$7) related to the plan; year-to-date \$1,042 (2019: \$54).

## Deferred Stock Units

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

<i>Deferred stock units</i>	<b>September 30, 2020</b>	December 31, 2019	September 30, 2019
January 1	<b>72,672</b>	43,088	43,088
New issuances	<b>27,344</b>	29,584	29,584
Settlements	<b>(7,588)</b>	—	—
Balance	<b>92,428</b>	72,672	72,672

At September 30, 2020, independent directors held 92,428 DSUs. During the quarter the Company recognized costs of \$20 (2019: \$15) related to DSUs issued under the Omnibus Plan; year-to-date \$798 (2019: \$100).

**NOTE 10 CAPITAL AND OTHER COMPONENTS OF EQUITY**

## Share Capital and Contributed Surplus

Issued share capital is as follows:

<i>In thousands of shares</i>	<b>September 30, 2020</b>	December 31, 2019	September 30, 2019
January 1	<b>23,392</b>	23,392	23,392
Exercise of stock options	<b>9</b>	—	—
Exercise of deferred share units	<b>8</b>	—	—
Balance	<b>23,409</b>	23,392	23,392

## Capital and other components of equity

**Contributed surplus**

Contributed surplus is comprised of the difference between the book value per share and the purchase price paid for shares acquired for cancellation by the Company and stock-based compensation of employees and non-employees.

## Stock options outstanding as at September 30

<i>In thousands of options</i>	<b>2020</b>	2019
Stock options granted and outstanding	<b>1,630</b>	712

## Notes to CFS (cont'd)

### Inputs for measurement of grant date fair values

The grant date fair values of all options were measured based on the Black-Scholes model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

#### Fair value of stock options and assumptions

<i>In Canadian dollars</i>	June 2020		March 2020		May 2019
Fair value at grant date	\$	5.06	\$	0.66	\$ 2.04
Share price at grant date	\$	16.68	\$	4.84	\$ 9.58
Exercise price	\$	16.30	\$	5.14	\$ 9.49
Expected volatility (weighted average volatility)		39.7 %		32.6 %	30.7
Option life (expected weighted average life)		5 years		5 years	5 years
Expected dividends		1.7 %		5.8 %	2.9 %
Risk-free interest rate (based on government bonds)		0.4 %		0.8 %	1.5 %

#### Stock option expense

During the quarter the Company recognized as costs of \$129 (2019: \$61) relating to option grants in general and administrative expenses of the statement of profit; year-to-date \$25 (2019: \$110).

#### Dividends

Dividends on common shares were paid to shareholders of record in 2020 and 2019 as follows:

Shareholder of record at:	2020		2019	
	\$CAD/share	Date Paid	\$CAD/share	Date Paid
September 30	0.07	October 15, 2020	0.07	October 15, 2019
June 30	0.07	July 15, 2020	0.07	July 15, 2019
March 31	0.07	April 15, 2020	0.07	April 15, 2019

The dividend payable at September 30, 2020 was \$1,226 (September 30, 2019: \$1,236).

## NOTE 11 EARNINGS PER SHARE

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

For the three-month periods ended September 30 <i>In thousands of US dollars, except share amounts outstanding, per share amounts in US dollars</i>	Three-month		Nine-Month	
	2020	2019	2020	2019
Numerator for basic and diluted earnings per share: Net income	11,646	1,525	17,801	7,762
Denominator for basic and diluted earnings per share: Basic weighted average number of shares outstanding	23,401	23,392	23,398	23,392
Dilution effect of stock options	1,111	0	710	—
Dilution of effect of deferred stock units	88	57	85	50
Diluted weighted average number of shares outstanding	24,600	23,449	24,193	23,442
Net income per share: Basic	0.50	0.07	0.76	0.33
Diluted	0.47	0.07	0.74	0.33

For the quarter ended September 30, 2020, nil options (2019: 711,963) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive; year-to-date 81,370 options (2019: 711,963).

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

**NOTE 12 INCOME TAXES**

For the three- and six-month periods ended June 30 <i>In thousands of US dollars</i>	Three-month		Nine-Month	
	2020	2019	2020	2019
Current tax expense:				
Current period	11,266	1,300	18,885	4,858
Adjustment for prior period(s)	—	(9)	(106)	249
	11,266	1,291	18,779	5,107
Deferred tax expense:				
Origination and reversal of temporary differences	(4,192)	(758)	(4,052)	(1,988)
Adjustment for prior period(s)	(9)	(333)	14	(637)
	(4,201)	(1,091)	(4,038)	(2,625)
Total income tax expense	7,065	200	14,741	2,482

**NOTE 13 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).

**NOTE 14 POST RETIREMENT BENEFITS****Defined Contribution Plan**

AirBoss of America Corp. maintains registered retirement savings plan and defined contribution plans for its employees. Total expenses for this plan during the period were \$112 (2019: \$69); year-to-date \$302 (2019: \$261).

AirBoss Rubber Compounding (NC) Inc. maintains a 401(k) plan for its employees. Total expenses for this plan during the period were \$21 (2019: \$21); year-to-date \$52 (2019: \$50).

AirBoss Flexible Products Co. ("AFP") maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were \$184 (2019: \$106); year-to-date \$327 (2019: \$310).

AirBoss Defense Group, LLC maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were \$25 (2019: \$22); year-to-date \$79 (2019: \$67).

AirBoss Defense Group Ltd. employees are covered under various registered and unregistered defined contribution plans. Total expenses for these plans during the period were \$54 (2019: \$40); year-to-date \$164 (2019: \$135).

Critical Solutions International, Inc. maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were \$101; year-to-date \$272.

### Multi-Employer Pension Plan

AFP contributes to the Steel Workers Pension Trust, a multi-employer defined benefit pension plan under the terms of collective-bargaining agreements that cover its union-represented employees in the State of Michigan. The risks of participating in a multi-employer plan are different from participation in a single-employer plan in the following aspects:

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

During the quarter AFP made contributions of \$24 (2019: \$71) to the multi-employer pension plan; year-to-date \$95 (2019: \$206). The unfunded vested benefit ratio was 17.0% at December 31, 2019. The Steel Workers Pension Trust was in a net deficit at December 31, 2019 and AFP's portion of the deficit was unknown. The collective bargaining agreement requires that AFP contributes \$0.40 for each hour worked by eligible employees during the preceding wage month.

### NOTE 15 SEGMENTED INFORMATION

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.

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

Comparative period segment disclosures have been recast to reflect the changes in the Company's reporting segments. Information regarding the results of each reportable segment is included below. Inter-company amounts, which represent items purchased from different segments, have been presented within the segment disclosure and are eliminated to arrive at the consolidated amounts.

Information about reportable segments three-months ended Sep 30	Rubber Solutions		Engineered Products		AirBoss Defense Group		Unallocated Corporate Costs		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
<i>In thousands of US dollars</i>										
Segment net sales	29,757	33,371	37,828	31,709	108,430	16,794	—	—	176,015	81,874
Inter-segment net sales	(5,336)	(4,337)	(6,886)	0	(1,048)	(364)	—	—	(13,270)	(4,701)
External net sales	24,421	29,034	30,942	31,709	107,382	16,430	—	—	162,745	77,173
Depreciation, amortization, and impairment	844	951	2,032	1,165	5,391	1,208	120	45	8,387	3,369
Segment measure of profit (loss)	3,125	3,173	(216)	(772)	28,419	1,251	(2,380)	(1,026)	28,948	2,626
Finance costs									723	901
Income tax expense									7,065	200
Net Income (loss)									21,160	1,525
Segment assets <sup>1</sup>	73,227	76,720	77,248	79,471	183,161	89,226	23,723	4,247	357,359	249,664
Segment liabilities <sup>1</sup>	23,645	20,560	22,700	24,314	49,510	14,153	65,588	64,658	161,443	123,685
Capital additions <sup>2</sup>	1,386	3,392	1,010	1,389	2,054	559	94	295	4,544	5,635

## Notes to CFS (cont'd)

Information about reportable segments nine-months ended Sep 30	Rubber Solutions		Engineered Products		AirBoss Defense Group		Unallocated Corporate Costs		Total	
<i>In thousands of US dollars</i>	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Segment net sales	87,362	104,828	81,407	95,340	225,509	56,993	—	—	394,278	257,161
Inter-segment sales	(11,935)	(13,068)	(9,734)	0	(3,217)	(1,729)	—	—	(24,886)	(14,797)
External net sales	75,427	91,760	71,673	95,340	222,292	55,264	—	—	369,392	242,364
Depreciation, amortization, and impairment	2,299	3,143	4,506	3,445	9,567	3,305	263	131	16,635	10,024
Segment measure of profit	9,690	11,836	(4,777)	(2,729)	57,307	6,893	(8,455)	(2,775)	53,765	13,225
Finance costs									2,694	2,981
Income tax expense/(recovery)									14,741	2,482
Net Income (loss)									36,330	7,762
Reportable segment assets <sup>1</sup>	73,227	76,720	77,248	79,471	183,161	89,226	23,723	4,247	357,359	249,664
Reportable segment liabilities <sup>1</sup>	23,645	20,560	22,700	24,314	49,510	14,153	65,588	64,658	161,443	123,685
Capital additions <sup>2</sup>	2,881	8,130	3,393	2,275	3,679	2,405	608	775	10,561	13,585

<sup>1</sup> Comparative figures as at December 31, 2019.

<sup>2</sup> Comparative figures as at September 30, 2019.

### Geographical segments

The Company operates manufacturing facilities and sales offices in the US and Canada, selling primarily in North American markets.

In presenting information on the basis of geographical segments, segment net sales is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Non-current assets include property, plant and equipment, software, goodwill, future income taxes and other assets.

<i>In thousands of US dollars</i>	Net Sales Three-months ended September 30		Net Sales Nine-months ended September 30		Non-current assets September 30		Non-current assets December 31	
	2020	2019	2020	2019	2020	2019	2019	
Canada	13,215	12,741	48,799	41,908	45,037	46,733	48,429	
United States	140,950	57,447	300,873	177,513	112,791	75,339	83,928	
Other countries	8,580	6,985	19,720	22,943	—	—	—	
	162,745	77,173	369,392	242,364	157,828	122,072	132,357	

### Major customers

Net sales from one customer represented approximately 26.1% (2019: 10.0%) of the Company's total net sales. Five customers represented 48.2% (2019: 36.0%) of the Company's total net sales.

### Major products

<i>In thousands of US dollars</i>	Three-months ended September 30		Nine-months ended September 30	
	2020	2019	2020	2019
<b>Rubber Solutions</b>				
Tolling	2,193	2,451	5,572	7,131
Mixing	22,228	26,582	69,855	84,628
	24,421	29,033	75,427	91,759
<b>AirBoss Defense Group</b>				
Defense	100,503	9,563	203,152	33,346
Industrial	6,879	6,868	19,140	21,919
	107,382	16,431	222,292	55,265
<b>Engineered Products</b>	30,942	31,709	71,673	95,340
<b>Total</b>	162,745	77,173	369,392	242,364

## Notes to CFS (cont'd)

### **NOTE 16 RELATED PARTIES**

#### 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 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).

### **NOTE 17 IMPAIRMENT**

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.

### **NOTE 18 RECLASSIFICATION OF COMPARATIVE AMOUNTS**

Certain comparative amounts for the prior period have been reclassified to conform to current period presentations. Such reclassifications had no effect on net income or shareholders' equity.

## Corporate Information

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