

Interim Condensed Consolidated Statement of Financial Position

Unaudited

<i>In thousands of US dollars</i>	<i>Note</i>	September 30, 2021	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents	4, 5	12,413	86,970
Trade and other receivables, including derivatives	7, 11	91,500	68,602
Prepaid expenses		18,337	6,176
Inventories	8	199,881	45,525
Current income taxes receivable	15	7,120	1,452
Total current assets		329,251	208,725
Non-current assets			
Property, plant and equipment		91,885	81,254
Intangible assets	4, 5, 6	124,033	71,774
Deferred income tax assets	15	570	3,973
Other assets	9	1,150	1,643
Total non-current assets		217,638	158,644
Total assets		546,889	367,369
LIABILITIES			
Current liabilities			
Loans and borrowings	10, 16	3,023	27,083
Trade and other payables, including derivatives	11	87,354	74,295
Provisions	12	2,630	573
Current income taxes payable	15	—	747
Total current liabilities		93,007	102,698
Non-current liabilities			
Loans and borrowings	10	213,493	63,651
Employee benefits	17	648	664
Provisions	12	15,789	2,058
Deferred income tax liabilities	15	2,112	3,710
Total non-current liabilities		232,042	70,083
Total liabilities		325,049	172,781
EQUITY			
Share capital	13	87,998	87,060
Contributed surplus	13	2,195	1,578
Retained earnings		131,647	105,950
Total equity		221,840	194,588
Total liabilities and equity		546,889	367,369

The notes on pages 16 to 28 are an integral part of these interim condensed consolidated financial statements.

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	
		2021	2020	2021	2020
Net Sales		112,027	162,745	337,805	369,392
Cost of sales	16	(86,251)	(117,032)	(252,951)	(273,725)
Gross profit		25,776	45,713	84,854	95,667
General and administrative expenses	16	(11,786)	(11,290)	(34,591)	(31,434)
Selling and marketing expenses		(3,782)	(1,954)	(8,890)	(4,863)
Research and development expenses		(974)	(1,304)	(2,576)	(2,342)
Other income (expenses)		(367)	(2,217)	(119)	(3,263)
		(16,909)	(16,765)	(46,176)	(41,902)
Results from operating activities		8,867	28,948	38,678	53,765
Finance costs	10, 11	(1,740)	(723)	(3,421)	(2,694)
Profit before income tax		7,127	28,225	35,257	51,071
Income tax expense	15	(225)	(7,065)	(3,716)	(14,741)
Profit and total comprehensive income for the period		6,902	21,160	31,541	36,330
Profit attributable to:					
Owners of the Company		6,902	11,646	31,541	17,801
Non-controlling interest		—	9,514	—	18,529
		6,902	21,160	31,541	36,330
Earnings per share:					
Basic	14	0.26	0.50	1.17	0.76
Diluted	14	0.24	0.47	1.11	0.74

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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, 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
Contributions by and distributions							
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	6	—	13,655	—	13,655	23,538	37,193
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
Balance at January 1, 2021		87,060	1,578	105,950	194,588	—	194,588
Total comprehensive income for the period		—	—	31,541	31,541	—	31,541
Contributions by and distributions							
Stock options expensed		—	832	—	832	—	832
Stock options exercised		938	(215)	—	723	—	723
Dividends to equity holders		—	—	(5,844)	(5,844)	—	(5,844)
Total contributions by and distributions		938	617	(5,844)	(4,289)	—	(4,289)
Balance at September 30, 2021		87,998	2,195	131,647	221,840	—	221,840

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Interim Condensed Consolidated Statement of Cash Flows

Unaudited

For the nine-month period ended September 30 In thousands of US dollars	Note	2021	2020
Cash flows from operating activities			
Profit for the nine-month period ended September 30		31,541	36,330
Adjustments for:			
Depreciation		9,751	9,556
Amortization of intangible assets		4,627	4,252
Impairment of assets		—	2,827
Finance costs	10, 11	3,421	2,694
Government assistance loan forgiveness	16	(6,496)	—
Unrealized foreign exchange losses		1,487	(20)
Share-based payment expense	12, 13	6,151	1,865
SRED tax credits		(715)	(533)
Income tax expense	15	3,716	14,741
Other		(93)	(83)
		53,390	71,629
Change in inventories		(152,110)	(5,462)
Change in trade and other receivables		(21,195)	(25,956)
Change in prepaid expenses		(11,374)	(4,336)
Change in trade and other payables		8,708	28,117
Change in provisions	12	(1,069)	(50)
Net change in non-cash working capital balances		(177,040)	(7,687)
Interest paid		(2,258)	(2,174)
Income tax paid		(10,484)	(13,899)
Net cash provided by (used in) operating activities		(136,392)	47,869
Cash flows from investing activities			
Acquisition of property, plant and equipment		(12,302)	(9,174)
Acquisition of intangible assets		(706)	(716)
Proceeds from government grant		—	500
Proceeds from asset disposals		9	1,365
Cash paid to acquire subsidiary	4, 5	(47,944)	—
Cash acquired on acquisition of subsidiary	4, 5, 6	1,946	4,498
Net cash used in investing activities		(58,997)	(3,527)
Cash flows from financing activities			
Repayment of borrowings	10	(71,250)	(2,813)
Proceeds from operating line of credit	10	199,500	—
Principal payments for lease liabilities		(1,662)	(1,288)
Proceeds from government loan	16	—	6,432
Payment of debt refinancing fees		(1,505)	(717)
Repayment (issuance) of share purchase loans	9, 19	—	248
Exercise of options (net of withholding taxes)		723	(50)
Interest received on share purchase loans	9, 19	5	13
Dividends paid	13	(5,180)	(3,617)
Net cash provided by (used in) financing activities		120,631	(1,792)
Net change in cash and cash equivalents		(74,758)	42,550
Cash and cash equivalents at January 1		86,970	121
Effect of exchange rate fluctuations on cash held		201	420
Cash and cash equivalents at September 30		12,413	43,091

The notes on pages 16 to 28 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, 2021 and September 30, 2020*(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 and cross-traded on the OTCQX® Best Market in the United States, 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 18).

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

List of Subsidiaries

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

Operating Subsidiaries	Jurisdiction	Ownership % 2021 (2020)
AirBoss Rubber Compounding (NC), LLC ("ANC") (formerly AirBoss Rubber Compounding (NC) Inc.)	North Carolina	100% (100%)
SunBoss Chemicals Corp.	Ontario	100% (100%)
AirBoss Flexible Products, LLC ("AFP") (formerly AirBoss Flexible Products Co.)	Michigan	100% (100%)
AirBoss Defense Group Ltd. ("ADG Canada")	Quebec	100% (55%*)
AirBoss Defense Group, LLC ("ADG USA")	Delaware	100% (55%*)
Critical Solutions International, LLC ("CSI") (formerly Critical Solutions International, Inc.)	Texas	100% (55%*)
Blackbox Biometrics, Inc. ("B3")	New York	100% (2.5%)
Ace Elastomer, Inc. ("Ace")	South Carolina	100% (nil)

* See Note 6, AirBoss Defense Group Transactions

NOTE 2 BASIS OF PREPARATION**Statement of compliance**

The interim condensed consolidated financial statements should be read in conjunction with the Company's 2020 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 9, 2021.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 4 ACQUISITION OF ACE ELASTOMER INC.

On August 31, 2021, the Company closed of the previously announced acquisition of 100% ownership of Ace Elastomer, Inc. for US\$42.5 million in cash, adjusted for working capital.

Acquisition-related costs

The Company incurred acquisition-related costs of \$47 on professional fees and due diligence costs that were included in "general and administrative expenses" in 2021.

Consideration transferred

The following table summarizes acquisition date fair value of consideration transferred

<i>In thousands of US dollars</i>	
Cash paid on closing	39,958
Cash held back and to be settled in accordance with purchase agreement	2,542
	42,500
Cash for excess working capital	371
Total consideration transferred	42,871

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:

<i>In thousands of US dollars</i>	
Fair value of assets acquired:	
Cash and cash equivalents	540
Restricted cash to settle Ace's outstanding debt	638
Trade and other receivables	2,522
Prepaid expenses	429
Inventories	2,169
Property, plant, and equipment	1,691
Trade name	6,600
Customer relationships	15,160
Unpatented know-how	5,110
Non-compete agreements with employees	90
Total assets	34,949
Value of liabilities assumed:	
Trade and other payables	1,852
Debt	633
Total liabilities assumed	2,485
Net assets acquired	32,464

The fair value of Ace's intangible assets have been measured through an independent valuation based on the following key assumptions: financial forecasts, estimated technical obsolescence rates, discount rates and royalty rates. The following methodologies were used: Relief From Royalty, Multi Period Excess Earnings, and With and Without Income approach.

Goodwill

Goodwill arising from the acquisition has been recognized as follows.

<i>In thousands of US dollars</i>	
Consideration transferred	42,871
Fair value of identifiable net assets	(32,464)
Goodwill	10,407

The valuation of goodwill is attributable mainly to the skills and technical talent of Ace's work force, and the synergies expected to be achieved from integrating Ace into AirBoss Rubber Solutions.

NOTE 5 ACQUISITION OF BLACKBOX BIOMETRICS, INC.

On May 17, 2021, the Company closed the previously announced transaction to acquire B3. \$7.6 million in cash was paid on closing and up to an additional \$20 million will be paid in royalties over eight years, based on revenues earned from B3 products.

Acquisition-related costs

The Company incurred acquisition-related costs of \$154 on professional fees and due diligence costs that were included in "general and administrative expenses" in 2021.

Consideration transferred

The following table summarizes acquisition date fair value of consideration transferred:

<i>In thousands of US dollars</i>	
Cash	7,615
Contingent consideration	9,008
Total consideration transferred	16,623

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:

<i>In thousands of US dollars</i>	
Fair value of assets acquired:	
Cash and cash equivalents	768
Trade and other receivables	121
Prepaid expenses	357
Inventories	77
Property, plant, and equipment	102
Computer software	42
Patents and trademarks	13,410
Total assets	14,877
Value of liabilities assumed:	
Trade and other payables	320
Deferred taxes	2,878
Total liabilities assumed	3,198
Net assets acquired	11,679

The fair value of B3's intangible assets (patents and trademarks) have been measured through an independent valuation based on the following key assumptions: financial forecasts, estimated technical obsolescence rates, discount rates and royalty rates using the following methodologies: Relief From Royalty and Multi Period Excess Earnings.

Contingent consideration was measured on a discounted cash flow basis, reflecting the present value of undiscounted expected future payments of \$20 million which is the expected payout based on forecast revenues at that date, discounted using a risk adjusted discount rate of 25 percent.

Goodwill

Goodwill arising from the acquisition has been recognized as follows.

<i>In thousands of US dollars</i>	
Consideration transferred	16,623
Fair value of pre-existing interest in B3	417
Fair value of identifiable net assets	(11,679)
Goodwill	5,361

The remeasurement to fair value of the Company's pre-existing 2.5% interest in B3 resulted in a loss of \$76 (\$417 less the \$493 carrying amount of the investment). This amount has been included in finance costs.

The goodwill is attributable mainly to the skills and technical talent of B3's work force, and the synergies expected to be achieved from integrating B3 into AirBoss Defense Group.

NOTE 6 AIRBOSS DEFENSE GROUP TRANSACTIONS

On January 1, 2020, the Company closed the previously announced transaction to form the AirBoss Defense Group segment ("ADG") 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 \$45,000 and equity interests. Critical Solutions Holdings Inc. ("CSH") contributed all the shares of CSI and transferred a \$15,000 receivable from CSI in exchange for equity interests. Following these transactions AirBoss owned 55% of the equity in ADG and a \$60,000 Vendor Takeback Notes due from ADG, with the remaining 45% of the equity interest in ADG 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 \$3,785 on professional fees and due diligence costs that were included in "general and administrative expenses" in 2020 and 2019. During the quarter the Company recorded nil expenses (2020: \$35); year-to-date: nil (2020: \$2,363).

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 estimates of fair values as follows:

In thousands of US dollars

Fair value of assets acquired:	
Cash and cash equivalents	4,498
Trade and other receivables	2,203
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	493
Total assets	38,123
Value of liabilities assumed:	
Trade and other payables	3,758
Vendor Takeback Note	15,000
Total liabilities assumed	18,758
Net assets acquired	19,365

The fair value of CSI's intangible assets (customer relationships, brand and patented technology) have been measured through an independent valuation based on the following key assumptions: revenue forecasts, estimated annual attrition rates, discount rates and a royalty rates and using the following methodologies: Relief From Royalty, Multi Period Excess Earnings, and Cost Avoidance.

Goodwill

Goodwill arising from the acquisition has been recognized as follows.

In thousands of US dollars

Consideration transferred:	
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)
Less: Fair value of net assets acquired	(19,365)
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.

Acquisition of non-controlling interest in ADG

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 having a fair value of \$47,597 (less issuance costs of \$178) and \$20,000, with \$5,000 paid at closing, and installments of \$5,000 paid at each three-month anniversary. The fair value of the Company's shares issued was based on the listed share price at October 23, 2020 of CAD \$17.87 per share. The excess of the total consideration over the carrying value of the non-controlling interest of \$46,097 was accounted in the contributed surplus of \$13,655 and retained earnings of \$7,844.

NOTE 7 TRADE AND OTHER RECEIVABLES

<i>In thousands of US dollars</i>	September 30, 2021	December 31, 2020
Trade receivables	90,230	66,692
Less: expected credit loss	(599)	(750)
	89,631	65,942
Other receivables	1,869	2,660
	91,500	68,602

Impairment losses

The aging of trade receivables at the reporting date was:

<i>In thousands of US dollars</i>	September 30, 2021		December 31, 2020	
	Gross	Impairment	Gross	Impairment
Within terms	74,465	—	49,544	—
Past due 0-30 days	9,228	—	12,621	—
Past due 31-120 days	6,537	(599)	4,527	(750)
	90,230	(599)	66,692	(750)

The continuity of the allowance for doubtful accounts was:

<i>In thousands of US dollars</i>	September 30, 2021	December 31, 2020
Balance at January 1	(750)	(481)
Written-off	36	—
Impairment loss recognized	(150)	(755)
Collected	265	486
Balance	(599)	(750)

NOTE 8 INVENTORIES

<i>In thousands of US dollars</i>	September 30, 2021	December 31, 2020
Raw materials and consumables	49,328	33,147
Work in progress	3,990	3,743
Finished goods	154,980	14,229
Inventory in transit	622	863
	208,920	51,982
Provisions	(9,039)	(6,457)
	199,881	45,525

An inventory charge of \$2,582 (2020: charge of \$2,961) was included in cost of sales for the increase in provisions.

NOTE 9 OTHER ASSETS

<i>In thousands of US dollars</i>	Share purchase loans	Other	Total
Balance at January 1, 2020	961	446	1,407
Accrued interest	11	—	11
Interest paid	(15)	—	(15)
Repayment of loan	(248)	—	(248)
Acquired on acquisition of subsidiary	—	493	493
Effect of movements in exchange rates	(5)	—	(5)
Balance at December 31, 2020	704	939	1,643
Investment eliminated upon acquiring control of B3 (note 5)	—	(493)	(493)
Accrued interest	7	—	7
Interest received	(5)	—	(5)
Effect of movements in exchange rates	(2)	—	(2)
Balance at September 30, 2021	704	446	1,150

NOTE 10 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 credit facilities.

In September 2021 the Company updated its credit facilities to increase revolving credit availability to \$250 million from \$150 million with an accordion of \$75 million (from \$50 million) upon the satisfaction of customary conditions for such features. The new facility bears interest at LIBOR plus applicable margins from 145 to 250 basis points, depending on covenants, and matures on September 23, 2026. Proceeds from the new facility were used to repay the Company's term loan and fund upfront payments related to acquisition of finished goods and other inventories, related primarily to execution on existing contracts.

In April 2021 the Company's credit facility was amended to increase the revolving facility from \$60 million to \$150 million.

During the third quarter of 2021, interest expense under the credit facility was \$1,584 (2020: \$285), excluding gains and losses related to its interest rate swap agreement; year-to-date \$2,096 (2020: \$1,163).

NOTE 11 DERIVATIVES NOT DESIGNATED IN A FORMAL HEDGE RELATIONSHIP

Foreign exchange hedge

At September 30, 2021, the Company had contracts to sell USD \$19,854 from October 2021 to May 2022 for Canadian dollars ("CAD") \$24,700. The fair value of these contracts, representing an unrealized loss of \$467, are included in trade and other payables, including derivatives on the statement of financial position. For the quarter ended September 30, 2021, the unrealized changes in fair value, representing a loss of \$699 (2020: loss of \$1,040), are recorded on the statement of profit as other income (expense); year-to-date \$1,087 (2020: loss of \$333).

At December 31, 2020, the Company had contracts to sell US \$16,031 from January 2021 to July 2021 for CAD \$21,200. The fair value of those contracts, representing an unrealized gain of \$620 are included in trade and other receivables, including derivatives on the statement of financial position.

Notes to CFS (cont'd)

Interest rate swap

In December 2020, the Company entered into an interest rate swap agreement for a notional amount of \$28,125 (\$26,719 as at September 30, 2021) amortizing down to \$24,375 at maturity in January 2023. 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 0.265%. This swap agreement replaces an old swap agreement that matured in December 2020 that calculated interest based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%.

For the quarter ended September 30, 2021, interest expense on the swap agreement was \$12 (2020: 79); year-to-date \$32 (2020: \$174).

At September 30, 2021, the fair value of this agreement, representing a loss of \$118, is included in loans and borrowings on the statement of financial position. For the quarter ended September 30, 2021, the change in the fair value, representing a loss of \$85 (2020: gain of \$99) is recorded on the statement of profit as finance costs; year-to-date \$61 (2020: \$72).

At December 31, 2020, the fair value of this agreement, representing a loss of \$57, 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 borrowings and does not hold it for trading or speculative purposes.

NOTE 12 PROVISIONS

<i>In thousands of US dollars</i>	Site restoration	PSUs and DSUs	Payable to former owners of acquired businesses	Total
Balance at January 1, 2020	74	655	—	729
Provisions accrued during the year	—	1,936	—	1,936
Payments during the year	—	(117)	—	(117)
Forfeitures during the year	—	(93)	—	(93)
Foreign exchange	—	176	—	176
Balance at December 31, 2020	74	2,557	—	2,631
Less: amount due within one year	—	(573)	—	(573)
Non-current balance at December 31, 2020	74	1,984	—	2,058
Balance at December 31, 2020	74	2,557	—	2,631
Provisions accrued during the period	—	5,319	—	5,319
Payments during the period	—	(1,069)	—	(1,069)
Issued to acquire B3 (note 5)	—	—	9,008	9,008
Funds withheld on acquisition of ACE (note 4)	—	—	2,542	2,542
Foreign exchange	5	(17)	—	(12)
Balance at September 30, 2021	79	6,790	11,550	18,419
Less: current portion due within one year	—	(497)	(2,133)	(2,630)
Non-current balance at September 30, 2021	79	6,293	9,417	15,789

No legal provisions are recognized at September 30, 2021 and December 31, 2020.

Performance Stock Units ("PSUs")

The Company has issued certain executives with an aggregate of 230,317 PSUs 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 1.5, 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, 2021	December 31, 2020	September 30, 2020
January 1	201,210	83,998	83,998
New issuances	54,350	191,233	183,619
Forfeitures	—	(46,906)	(42,762)
Settlements	(25,243)	(27,115)	(27,115)
Balance	230,317	201,210	197,740

During the quarter the Company recognized costs of \$825 (2020: \$807) related to the plan; year-to-date \$3,340 (2020: \$1,042).

Notes to CFS (cont'd)

Deferred Stock Units ("DSUs")

The Company has issued 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>	September 30, 2021	December 31, 2020	September 30, 2020
January 1	97,060	72,672	72,672
New issuances	12,546	31,976	27,344
Settlements	—	(7,588)	(7,588)
Balance	109,606	97,060	92,428

At September 30, 2021, independent directors held 109,606 DSUs. During the quarter the Company recognized costs of \$229 (2020: \$20) related to DSUs issued under the Omnibus Plan; year-to-date \$1,979 (2020: \$798).

NOTE 13 CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital and Contributed Surplus

Issued share capital is as follows:

<i>In thousands of shares</i>	September 30, 2021	December 31, 2020	September 30, 2020
January 1	26,909	23,392	23,392
Issued to acquire subsidiary	—	3,500	—
Exercise of stock options	78	9	9
Exercise of deferred share units	—	8	8
Balance	26,987	26,909	23,409

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>	2021	2020
Stock options granted and outstanding	1,691	1,630

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>	March 2021	November 2020	June 2020	March 2020
Fair value at grant date	\$15.18	\$4.67	\$5.06	\$0.66
Share price at grant date	\$39.77	\$16.68	\$16.68	\$4.84
Exercise price	\$36.01	\$17.53	\$16.30	\$5.14
Expected volatility (weighted average volatility)	41.8%	39.4%	39.7%	32.6%
Option life (expected weighted average life)	5 years	5 years	5 years	5 years
Expected dividends	0.7%	1.7%	1.7%	5.8%
Risk-free interest rate (based on government bonds)	1.0%	0.5%	0.4%	0.8%

Stock option expense

During the quarter the Company recognized as costs of \$367 (2020: \$129) relating to option grants in general and administrative expenses of the statement of profit; year-to-date \$832 (2020: \$25).

Dividends

Dividends on common shares were paid to shareholders of record in 2021 and 2020 as follows:

Shareholder of record at:	2021		2020	
	\$CAD/share	Date Paid	\$CAD/share	Date Paid
September 30	0.10	October 15, 2021	0.07	October 15, 2020
June 30	0.10	July 15, 2021	0.07	July 15, 2020
March 31	0.07	April 15, 2021	0.07	April 15, 2020

The dividend payable at September 30, 2021 was \$2,123 (September 30, 2020: \$1,226).

NOTE 14 EARNINGS PER SHARE

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

For the three- and nine-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	
	2021	2020	2021	2020
Numerator for basic and diluted earnings per share: Net income	6,902	11,646	31,541	17,801
Denominator for basic and diluted earnings per share: Basic weighted average number of shares outstanding	26,985	23,401	26,964	23,398
Dilution effect of stock options	1,280	1,111	1,242	710
Dilution of effect of deferred stock units	105	88	99	85
Diluted weighted average number of shares outstanding	28,370	24,600	28,305	24,193
Net income per share: Basic	0.26	0.50	1.17	0.76
Diluted	0.24	0.47	1.11	0.74

For the quarter ended September 30, 2021, nil options (2020: nil) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive; year-to-date nil options (2020: 81,370).

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 15 INCOME TAXES

For the three- and nine-month periods ended September 30 <i>In thousands of US dollars</i>	Three-month		Nine-Month	
	2021	2020	2021	2020
Current tax expense:				
Current period	(1,080)	11,266	4,809	18,885
Adjustment for prior period(s)	9	—	(21)	(106)
	(1,071)	11,266	4,788	18,779
Deferred tax expense:				
Origination and reversal of temporary differences	1,296	(4,192)	(1,081)	(4,052)
Adjustment for prior period(s)	—	(9)	9	14
	1,296	(4,201)	(1,072)	(4,038)
Total income tax expense	225	7,065	3,716	14,741

NOTE 16 GOVERNMENT ASSISTANCE

On May 1, 2020, the Company received a \$6,422 loan pursuant to the Paycheck Protection Program under Division A, Title I of the CARES Act, to fund certain payroll and business expenses of the Company's Michigan and North Carolina operations. This loan bore interest at 1.0% and was scheduled to mature on May 1, 2022. On June 30, 2021, the loan and accrued interest was forgiven and the Company recorded a reduction to cost of sales and operating expenses of \$5,560 and \$936, respectively, in the consolidated statement of profit.

The Government of Canada provided the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") to support businesses affected by COVID-19 based on certain criteria, including demonstration of revenue declines as result of COVID-19. The Company recorded CEWS and CERS as a reduction to cost of sales and operating expenses of nil and nil, respectively, in the consolidated statement of profit and comprehensive income (2020: \$1,433 and \$416); year-to-date \$2,380 and \$569 (2020: \$5,262 and \$1,264).

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 \$227 (2020: \$75) were recognized in the quarter and research and development costs were reduced accordingly; year-to-date \$715 (2020: \$533).

NOTE 17 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 \$113 (2020: \$112); year-to-date \$438 (2020: \$302).

ANC maintains a 401(k) plan for its employees. Total expenses for this plan during the period were \$32 (2020: \$21); year-to-date \$99 (2020: \$52).

AFP maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were \$129 (2020: \$184); year-to-date \$375 (2020: \$327).

ADG USA maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were \$38 (2020: \$25); year-to-date \$120 (2020: \$79).

ADG Canada employees are covered under various registered and unregistered defined contribution plans. Total expenses for these plans during the period were \$50 (2020: \$54); year-to-date \$154 (2020: \$164).

CSI maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were \$54 (2020: \$101); year-to-date \$118 (2020: \$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:

- (a) Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- (b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- (c) If 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 \$78 (2020: \$24) to the multi-employer pension plan; year-to-date \$220 (2020: \$95). The unfunded vested benefit ratio was 12.8% at December 31, 2020. The Steel Workers Pension Trust was in a net deficit at December 31, 2020 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 18 SEGMENTED INFORMATION

The Company has 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.

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 September 30	AirBoss Defense Group		Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
<i>In thousands of US dollars</i>	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Segment net sales	52,179	108,430	39,861	29,757	28,328	37,828	—	—	120,368	176,015
Inter-segment net sales	(1,172)	(1,048)	(4,486)	(5,336)	(2,683)	(6,886)	—	—	(8,341)	(13,270)
External net sales	51,007	107,382	35,375	24,421	25,645	30,942	—	—	112,027	162,745
Depreciation, amortization, and impairment	2,452	5,391	1,031	844	1,341	2,032	61	120	4,885	8,387
Segment measure of profit (loss)	14,175	28,419	2,082	3,125	(4,104)	(216)	(3,286)	(2,380)	8,867	28,948
Finance costs									1,740	723
Income tax expense									225	7,065
Profit									6,902	21,160
Segment assets ¹	297,024	198,450	152,098	82,150	85,727	75,597	12,040	11,172	546,889	367,369
Segment liabilities ¹	135,622	42,396	43,683	25,856	26,483	22,788	119,261	81,741	325,049	172,781
Capital additions	1,281	2,054	1,474	1,386	1,777	1,010	192	94	4,724	4,544

AirBoss of America Corp.

Notes to CFS (cont'd)

Information about reportable segments nine-months ended September 30	AirBoss Defense Group		Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
<i>In thousands of US dollars</i>	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Segment net sales	154,026	225,509	118,937	87,362	88,312	81,407	—	—	361,275	394,278
Inter-segment sales	(3,738)	(3,217)	(14,239)	(11,935)	(5,493)	(9,734)	—	—	(23,470)	(24,886)
External net sales	150,288	222,292	104,698	75,427	82,819	71,673	—	—	337,805	369,392
Depreciation, amortization, and impairment	6,994	9,567	3,200	2,299	4,002	4,506	182	263	14,378	16,635
Segment measure of profit (loss)	46,717	57,307	8,745	9,690	(6,451)	(4,777)	(10,333)	(8,455)	38,678	53,765
Finance costs									3,421	2,694
Income tax expense									3,716	14,741
Profit									31,541	36,330
Reportable segment assets ¹	297,024	198,450	152,098	82,150	85,727	75,597	12,040	11,172	546,889	367,369
Reportable segment liabilities ¹	135,622	42,396	43,683	25,856	26,483	22,788	119,261	81,741	325,049	172,781
Capital additions	6,748	3,679	3,658	2,881	6,400	3,393	754	608	17,560	10,561

¹ Comparative figures as at December 31, 2020.

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		Net Sales		Non-current assets		Non-current assets
	Three-months ended September 30	2020	Nine-months ended September 30	2020	September 30	2020	December 31
	2021		2021		2021		2020
Canada	11,030	13,215	34,261	48,799	60,045	45,037	45,357
United States	93,234	140,950	269,677	300,873	157,593	112,791	113,287
Other countries	7,763	8,580	33,867	19,720	—	—	—
	112,027	162,745	337,805	369,392	217,638	157,828	158,644

Major customers

Net sales to one customer represented approximately 24.5% (2020: 26.1%) of the Company's total net sales. Five customers represented 42.9% (2020: 48.2%) 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	
	2021	2020	2021	2020
AirBoss Defense Group				
Defense	42,281	100,503	126,437	203,152
Industrial	8,726	6,879	23,851	19,140
	51,007	107,382	150,288	222,292
Rubber Solutions				
Tolling	1,936	2,193	6,579	5,572
Mixing	33,439	22,228	98,119	69,855
	35,375	24,421	104,698	75,427
Engineered Products	25,645	30,942	82,819	71,673
Total	112,027	162,745	337,805	369,392

NOTE 19 RELATED PARTIES**Transactions with Related Parties**

During the quarter, the Company paid rent for the corporate office of CAD \$45 (2020: CAD \$45) to a company controlled by the Chairman of the Company; year-to-date \$135 (2020: \$135).

During the quarter, the Company paid fees for the use of a facility in South Carolina of approximately \$5 (2020: \$4) to a company in which the Chairman is an officer; year-to-date \$20 (2020: \$20).

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; and CAD \$92 to the President and Chief Operating Officer. 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 \$2,466 were pledged as collateral on these loans. At September 30, 2021, the loan receivables of \$704, including accrued interest, were included in Other Assets on the statement of financial position. During the quarter, interest revenue of nil (2020: \$3) was received; year-to-date \$5 (2020: \$13).

AirBoss of America Corp.

Notes to CFS (cont'd)

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