

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

For the three-month periods ended September 30, 2022 and September 30, 2021.

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, 2022 and September 30, 2021 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 8, 2022

Interim Condensed Consolidated Statement of Financial Position

Unaudited

<i>In thousands of US dollars</i>	<i>Note</i>	September 30, 2022	December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents	4, 5	5,784	7,131
Trade and other receivables	6	88,009	82,440
Prepaid expenses		12,957	10,032
Inventories	7	95,078	122,147
Current income taxes receivable	13	5,595	6,136
Total current assets		207,423	227,886
Non-current assets			
Property, plant and equipment		89,796	93,148
Intangible assets	4, 5,	115,009	121,075
Deferred income tax assets	13	7,457	—
Other assets		2,638	1,155
Total non-current assets		214,900	215,378
Total assets		422,323	443,264
LIABILITIES			
Current liabilities			
Loans and borrowings	8	2,259	2,356
Trade and other payables, including derivatives	9	84,141	103,026
Provisions	10	5,212	2,840
Current income taxes payable	13	1,063	—
Total current liabilities		92,675	108,222
Non-current liabilities			
Loans and borrowings	8	130,932	78,207
Employee benefits	15	521	579
Provisions	10	9,765	17,511
Deferred income tax liabilities	13	2,484	3,597
Total non-current liabilities		143,702	99,894
Total liabilities		236,377	208,116
EQUITY			
Share capital	11	87,811	87,937
Contributed surplus	11	3,538	2,531
Retained earnings		94,597	144,680
Total equity		185,946	235,148
Total liabilities and equity		422,323	443,264

The notes on pages 17 to 27 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	
		2022	2021	2022	2021
Net Sales		104,682	112,027	359,702	337,805
Cost of sales	14	(151,719)	(86,251)	(360,338)	(252,951)
Gross profit		(47,037)	25,776	(636)	84,854
General and administrative expenses	14	(12,691)	(11,786)	(32,089)	(34,591)
Selling and marketing expenses		(433)	(3,782)	(6,337)	(8,890)
Research and development expenses		(784)	(974)	(2,663)	(2,576)
Other income (expenses)		(861)	(367)	(915)	(119)
		(14,769)	(16,909)	(42,004)	(46,176)
Results from operating activities		(61,806)	8,867	(42,640)	38,678
Finance costs	8, 9	(1,282)	(1,740)	(3,767)	(3,421)
Profit (loss) before income tax		(63,088)	7,127	(46,407)	35,257
Income tax recovery (expense)	13	7,131	(225)	2,518	(3,716)
Profit (loss) and total comprehensive income for the period		(55,957)	6,902	(43,889)	31,541
Earnings (loss) per share:					
Basic	12	(2.07)	0.26	(1.62)	1.17
Diluted	12	(2.07)	0.24	(1.62)	1.11

The notes on pages 17 to 27 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 equity
Balance at January 1, 2021		87,060	1,578	105,950	194,588
Total comprehensive income for the period		—	—	31,541	31,541
Contributions by and distributions					
Stock options expensed		—	832	—	832
Stock options exercised		938	(215)	—	723
Dividends to equity holders		—	—	(5,844)	(5,844)
Total contributions by and distributions		938	617	(5,844)	(4,289)
Balance at September 30, 2021		87,998	2,195	131,647	221,840
Balance at January 1, 2022		87,937	2,531	144,680	235,148
Total comprehensive loss for the period		—	—	(43,889)	(43,889)
Contributions by and distributions					
Stock options expensed		—	1,131	—	1,131
Stock options exercised		(622)	(71)	—	(693)
Stock options forfeited		—	(53)	—	(53)
Shares issued		496	—	—	496
Dividends to equity holders		—	—	(6,194)	(6,194)
Total contributions by and distributions		(126)	1,007	(6,194)	(5,313)
Balance at September 30, 2022		87,811	3,538	94,597	185,946

The notes on pages 17 to 27 are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Cash Flows

Unaudited

For the nine-month period ended September 30 In thousands of US dollars	Note	2022	2021
Cash flows from operating activities			
Profit (loss) for the nine-month period ended September 30		(43,889)	31,541
Adjustments for:			
Depreciation		9,293	9,751
Amortization of intangible assets		7,108	4,627
Write-down of inventory		57,001	—
Finance costs	8, 9	3,767	3,421
Government assistance loan forgiveness	14	—	(6,496)
Unrealized foreign exchange losses		1,522	1,487
Share-based payment (cost recoveries) expense	10, 11	(5,641)	6,151
SRED tax credits		(492)	(715)
Income tax (recovery) expense	13	(2,518)	3,716
Other		(31)	(93)
		26,120	53,390
Change in inventories		(29,932)	(152,110)
Change in trade and other receivables		(5,877)	(21,195)
Change in prepaid expenses		(2,917)	(11,374)
Change in trade and other payables		(19,667)	8,708
Change in provisions	10	922	(1,069)
Net change in non-cash working capital balances		(57,471)	(177,040)
Interest paid		(3,168)	(2,258)
Income tax paid		(4,136)	(10,484)
Net cash used in operating activities		(38,655)	(136,392)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(6,131)	(12,302)
Acquisition of intangible assets		(839)	(706)
Proceeds from asset disposals		—	9
Cash paid to acquire subsidiary	4, 5	—	(47,944)
Cash acquired on acquisition of subsidiary	4, 5	—	1,946
Net cash used in investing activities		(6,970)	(58,997)
Cash flows from financing activities			
Repayment of borrowings		—	(71,250)
Proceeds from operating line of credit	8	54,400	199,500
Principal payments for lease liabilities		(1,811)	(1,662)
Payment of debt refinancing fees		—	(1,505)
Issuance of share purchase loans	17	(1,750)	—
Repayment of share purchase loans	17	239	—
Exercise of options (net of withholding taxes)		(693)	723
Interest received on share purchase loans	17	8	5
Dividends paid	11	(6,353)	(5,180)
Net cash provided by financing activities		44,040	120,631
Net change in cash and cash equivalents		(1,585)	(74,758)
Cash and cash equivalents at January 1		7,131	86,970
Effect of exchange rate fluctuations on cash held		238	201
Cash and cash equivalents at September 30		5,784	12,413

The notes on pages 17 to 27 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, 2022 and September 30, 2021

(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 16).

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 % (2022 & 2021)
AirBoss Rubber Compounding (NC), LLC (“ANC”) (formerly AirBoss Rubber Compounding (NC) Inc.)	North Carolina	100%
SunBoss Chemicals Corp.	Ontario	100%
AirBoss Flexible Products, LLC (“AFP”) (formerly AirBoss Flexible Products Co.)	Michigan	100%
AirBoss Defense Group Ltd. (“ADG Canada”)	Quebec	100%
AirBoss Defense Group, LLC (“ADG USA”)	Delaware	100%
Critical Solutions International, LLC (“CSI”) (formerly Critical Solutions International, Inc.)	Texas	100%
Blackbox Biometrics, Inc. (“B3”)	New York	100%
Ace Elastomer, LLC (“Ace”)	South Carolina	100%

NOTE 2 BASIS OF PREPARATION

Statement of compliance

The interim condensed consolidated financial statements should be read in conjunction with the Company’s 2021 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 8, 2022.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies in Note 3 to the annual consolidated financial statements for the year ended December 31, 2021, 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 acquired 100% ownership of Ace for US\$42.5 million in cash, adjusted for working capital.

Acquisition-related costs

The Company incurred acquisition-related costs of \$275 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
Holdback not paid	(214)
	42,286
Cash for excess working capital	371
Total consideration transferred	42,657

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:

<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	3,300
Customer relationships	17,060
Unpatented know-how	5,540
Non-compete agreements with employees	90
Total assets	33,979
Value of liabilities assumed:	
Trade and other payables	1,852
Debt	633
Total liabilities assumed	2,485
Net assets acquired	31,494

The fair value of Ace's intangible assets have been measured through an independent valuation based on the following key assumptions: financial forecasts, customer attrition rates, 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	42,657
Fair value of identifiable net assets	(31,494)
Goodwill	11,163

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 acquired 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 \$170 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 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%.

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 was 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 TRADE AND OTHER RECEIVABLES

<i>In thousands of US dollars</i>	September 30, 2022	December 31, 2021
Trade receivables	87,675	80,861
Less: expected credit loss	(748)	(601)
	86,927	80,260
Other receivables	1,082	2,180
	88,009	82,440

Impairment losses

The aging of trade receivables at the reporting date was:

<i>In thousands of US dollars</i>	September 30, 2022		December 31, 2021	
	Gross	Impairment	Gross	Impairment
Within terms	66,661	—	64,776	—
Past due 0-30 days	10,613	—	10,520	—
Past due 31-120 days	10,401	(748)	5,565	(601)
	87,675	(748)	80,861	(601)

The continuity of the allowance for doubtful accounts was:

<i>In thousands of US dollars</i>	September 30, 2022	December 31, 2021
Balance at January 1	(601)	(750)
Revised estimate	24	45
Impairment loss recognized	(245)	(188)
Collected	74	292
Balance	(748)	(601)

NOTE 7 INVENTORIES

<i>In thousands of US dollars</i>	September 30, 2022	December 31, 2021
Raw materials and consumables	66,157	49,338
Work in progress	7,120	3,734
Finished goods	86,486	76,848
Inventory in transit	214	658
	159,977	130,578
Provisions	(64,899)	(8,431)
	95,078	122,147

An inventory charge of \$56,468 (2021: charge of \$2,582) was included in cost of sales for the increase in provisions. During the quarter ended September 30, 2022, ADG recorded a \$57,001 provision against its inventory of nitrile gloves due to significant downward shifts in pricing and some gloves no longer meeting ADG's safety standards.

NOTE 8 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) available 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 September 2022, the Company's lenders agreed to exclude the \$57 million charge related to the nitrile gloves from the financial covenants.

During the third quarter of 2022, interest expense under the credit facility was \$1,215 (2021: \$1,584), excluding gains and losses related to its interest rate swap agreement; year-to-date \$2,339 (2021: \$2,096).

NOTE 9 DERIVATIVES NOT DESIGNATED IN A FORMAL HEDGE RELATIONSHIP

Foreign exchange hedge

At September 30, 2022, the Company had contracts to sell USD \$34,818 from October 2022 to September 2023 for Canadian dollars ("CAD") \$46,000. The fair value of these contracts, representing an unrealized loss of \$1,257, are included in trade and other payables, including derivatives on the statement of financial position. For the quarter ended September 30, 2022, the unrealized changes in fair value, representing a loss of \$1,124 (2021: \$699), are recorded on the statement of profit as other income (expense); year-to-date \$1,204 (2021: \$1,087).

At December 31, 2022, the Company had contracts to sell USD \$16,617 from January 2022 to September 2022 for CAD \$21,000. The fair value of those contracts, representing an unrealized loss of \$53 are included in trade and other payables, including derivatives on the statement of financial position.

Interest rate swap

In December 2021, the Company entered into an interest rate swap agreement for a notional amount of \$28,125 (\$24,844 as at September 30, 2022) 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 a previously existing swap agreement that matured in December 2021 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, 2022, interest recovery on the swap agreement was \$104 (2021: expense of \$12); year-to-date \$32 (2021: expense of \$32).

At September 30, 2022, the fair value of this agreement, representing a gain of \$249, is included in loans and borrowings on the statement of financial position. For the quarter ended September 30, 2022, the change in the fair value, representing a loss of \$68 (2021: \$85) is recorded on the statement of profit as finance costs; year-to-date gain of \$201 (2021: loss of \$61).

At December 31, 2021, the fair value of this agreement, representing a gain of \$48, 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 10 PROVISIONS

<i>In thousands of US dollars</i>	Site restoration	PSUs and DSUs	Legal	Payable to former owners of acquired businesses	Total
Balance at January 1, 2021	74	2,557	—	—	2,631
Funds withheld on acquisition on ACE (note 4)	—	—	—	2,542	2,542
Settlement of fund withheld	—	—	—	(792)	(792)
Issued to acquire B3 (note 5)	—	—	—	9,008	9,008
Change in fair value of B3 provision	—	—	—	(289)	(289)
Provisions accrued during the period	—	8,403	—	—	8,403
Payments during the year	—	(1,069)	—	—	(1,069)
Forfeitures during the year	—	(129)	—	—	(129)
Foreign exchange	5	41	—	—	46
Balance at December 31, 2021	79	9,803	—	10,469	20,351
Less: amount due within one year	—	(829)	—	(2,011)	(2,840)
Non-current balance at December 31, 2021	79	8,974	—	8,458	17,511
Balance at December 31, 2021	79	9,803	—	10,469	20,351
Provisions accrued/(recovered) during the period	—	(6,503)	11,550	750	5,797
Payments during the period	—	(689)	(8,800)	(1,134)	(10,623)
Forfeitures during the period	—	(221)	—	—	(221)
Foreign exchange	—	(327)	—	—	(327)
Balance at September 30, 2022	79	2,063	2,750	10,085	14,977
Less: current portion due within one year	—	(1,385)	(2,750)	(1,077)	(5,212)
Non-current balance at September 30, 2022	79	678	—	9,008	9,765

In the second quarter of 2022, the Company was named as a defendant in legal proceedings related to shipping and demurrage costs owed to a vendor by a subcontractor of the Company. The Company agreed to settlements totaling \$11.6 million (inclusive of legal fees) in respect of the shipping and demurrage costs, which it expects to fully settle before the end of the year.

Performance Stock Units ("PSUs")

The Company has issued certain executives with an aggregate of 274,841 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, 2022	December 31, 2021	September 30, 2021
January 1	224,470	201,210	201,210
New issuances	79,367	54,350	54,350
Forfeitures	(11,520)	(5,847)	—
Settlements	(17,476)	(25,243)	(25,243)
Balance	274,841	224,470	230,317

During the quarter the Company recognized cost recoveries of \$639 (2021: expense \$825) related to the plan; year-to-date \$3,677 (2021: expense of \$3,340).

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, 2022	December 31, 2021	September 30, 2021
January 1	112,335	97,060	97,060
New issuances	12,727	15,275	12,546
Balance	125,062	112,335	109,606

At September 30, 2022, independent directors held 125,062 DSUs. During the quarter the Company recognized cost recoveries of \$468 (2021: expense of \$229) related to DSUs issued under the Omnibus Plan; year-to-date \$3,042 (2021: expense of \$1,979).

NOTE 11 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, 2022	December 31, 2021	September 30, 2021
January 1	26,993	26,909	26,909
Issued to employee	20	—	—
Exercise of stock options	79	84	78
Balance	27,092	26,993	26,987

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>	2022	2021
Stock options granted and outstanding	1,704	1,691

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 2022	March 2021
Fair value at grant date	\$11.76	\$15.18
Share price at grant date	\$32.84	\$39.77
Exercise price	\$32.45	\$36.01
Expected volatility (weighted average volatility)	42.4%	41.8%
Option life (expected weighted average life)	5 years	5 years
Expected dividends	1.2%	0.7%
Risk-free interest rate (based on government bonds)	2.0%	1.0%

Stock option expense

During the quarter the Company recognized as costs of \$451 (2021: \$367) relating to option grants in general and administrative expenses of the statement of profit; year-to-date \$1,078 (2021: \$832).

Dividends

Dividends on common shares were paid to shareholders of record in 2022 and 2021 as follows:

Shareholder of record at:	2022		2021	
	\$CAD/share	Date Paid	\$CAD/share	Date Paid
September 30	0.10	October 15, 2022	0.10	October 15, 2021
June 30	0.10	July 15, 2022	0.10	July 15, 2021
March 31	0.10	April 15, 2022	0.07	April 15, 2021

The dividend payable at September 30, 2022 was \$1,983 (September 30, 2021: \$2,123).

NOTE 12 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	
	2022	2021	2021	2021
Numerator for basic and diluted earnings per share:				
Net income	(55,957)	6,902	(43,889)	31,541
Denominator for basic and diluted earnings per share:				
Basic weighted average number of shares outstanding	27,092	26,985	27,063	26,964
Dilution effect of stock options	—	1,280	—	1,242
Dilution of effect of deferred stock units	—	105	—	99
Diluted weighted average number of shares outstanding	27,092	28,370	27,063	28,305
Net income per share:				
Basic	(2.07)	0.26	(1.62)	1.17
Diluted	(2.07)	0.24	(1.62)	1.11

For the quarter ended September 30, 2022, 1,703,609 options (2021: nil) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive; year-to-date 1,703,609 options (2021: nil).

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 13 INCOME TAXES

For the three- and nine-month periods ended September 30 <i>In thousands of US dollars</i>	Three-month		Nine-Month	
	2022	2021	2022	2021
Current tax expense (recovery):				
Current period	1,071	(1,080)	4,572	4,809
Adjustment for prior period(s)	1,480	9	1,480	(21)
	2,551	(1,071)	6,052	4,788
Deferred tax expense (recovery):				
Origination and reversal of temporary differences	(8,202)	1,296	(7,090)	(1,081)
Adjustment for prior period(s)	(1,480)	—	(1,480)	9
	(9,682)	1,296	(8,570)	(1,072)
Total income tax expense (recovery)	(7,131)	225	(2,518)	3,716

NOTE 14 GOVERNMENT ASSISTANCE

On May 1, 2021, 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. During the quarter, 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 (2021: nil and nil); year-to-date nil and nil (2021: \$2,380 and \$569).

Scientific research and investment tax credits of \$161 (2021: \$227) were recognized in the quarter and research and development costs were reduced accordingly; year-to-date \$492 (2021: \$715).

NOTE 15 POST RETIREMENT BENEFITS**Defined Contribution Plan**

During the quarter the Company made contributions of \$358 (2021: \$416) to various retirement savings and 401(k) plans for its employees (defined contribution plans); year-to-date \$1,343 (2021: \$1,304).

Multi-Employer Pension Plan

During the quarter AFP made contributions of \$122 (2021: \$78) to the Steel Workers Pension Trust, a multi-employer defined benefit pension plan; year-to-date \$226 (2021: \$220).

NOTE 16 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 and Chief Operating Officer who, collectively, represent the Company's Chief Operating Decision Maker. 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.

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>	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Segment net sales	23,553	52,179	58,484	39,861	29,176	28,328	—	—	111,213	120,368
Inter-segment sales	(390)	(1,172)	(6,096)	(4,486)	(45)	(2,683)	—	—	(6,531)	(8,341)
External net sales	23,163	51,007	52,388	35,375	29,131	25,645	—	—	104,682	112,027
Depreciation, amortization, and impairment	2,424	2,452	1,643	1,031	1,282	1,341	63	61	5,412	4,885
Segment measure of profit (loss)	(57,023)	14,175	5,366	2,082	(7,487)	(4,104)	(2,662)	(3,286)	(61,806)	8,867
Finance costs									1,282	1,740
Income tax expense									(7,131)	225
Profit (loss)									(55,957)	6,902
Segment assets ¹	164,823	205,240	167,775	146,237	87,566	83,292	2,159	8,495	422,323	443,264
Segment liabilities ¹	72,617	69,571	51,082	32,115	22,092	23,565	90,586	82,865	236,377	208,116
Capital additions	400	1,281	1,629	1,474	92	1,777	566	192	2,687	4,724

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>	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Segment net sales	113,354	154,026	178,371	118,937	85,857	88,312	—	—	377,582	361,275
Inter-segment sales	(1,792)	(3,738)	(15,506)	(14,239)	(582)	(5,493)	—	—	(17,880)	(23,470)
External net sales	111,562	150,288	162,865	104,698	85,275	82,819	—	—	359,702	337,805
Depreciation, amortization, and impairment	7,335	6,994	4,922	3,200	3,957	4,002	187	182	16,401	14,378
Segment measure of profit (loss)	(36,131)	46,717	16,510	8,745	(21,913)	(6,451)	(1,106)	(10,333)	(42,640)	38,678
Finance costs									3,767	3,421
Income tax expense									(2,518)	3,716
Profit (loss)									(43,889)	31,541
Segment assets ¹	164,823	205,240	167,775	146,237	87,566	83,292	2,159	8,495	422,323	443,264
Segment liabilities ¹	72,617	69,571	51,082	32,115	22,092	23,565	90,586	82,865	236,377	208,116
Capital additions	1,282	6,748	3,776	3,658	828	6,400	1,097	754	6,983	17,560

¹ Comparative figures as at December 31, 2021.

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
	2022	2021	2022	2021	2022	2021	2021
Canada	18,175	11,030	53,775	34,261	59,494	60,045	62,278
United States	73,548	93,234	268,205	269,677	155,406	157,593	153,100
Other countries	12,959	7,763	37,722	33,867	—	—	—
	104,682	112,027	359,702	337,805	214,900	217,638	215,378

Major customers

Net sales to one customer represented approximately 10.9% (2021: 24.5%) of the Company's total net sales. Five customers represented 35.0% (2021: 42.9%) of the Company's total net sales.

AirBoss of America Corp.

Notes to CFS (cont'd)

Major products

<i>In thousands of US dollars</i>	Three-months ended September 30		Nine-months ended September 30	
	2022	2021	2022	2021
AirBoss Defense Group				
Defense	11,536	42,281	77,632	126,437
Industrial	11,627	8,726	33,930	23,851
	23,163	51,007	111,562	150,288
Rubber Solutions				
Tolling	1,672	1,936	8,532	6,579
Mixing	50,716	33,439	154,333	98,119
	52,388	35,375	162,865	104,698
Engineered Products				
	29,131	25,645	85,275	82,819
Total	104,682	112,027	359,702	337,805

NOTE 17 RELATED PARTIES

Transactions with Related Parties

During the quarter, the Company paid \$42 (2021: \$42) to companies controlled by the Chairman of the Company for use of office facilities; year-to-date \$127 (2021: \$133).

In March 2018, the Company provided a share purchase loan of CAD \$500 to the President and Chief Operating Officer that bears interest at 1%. In June 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 that bear interest at 2%. The loan to the Executive Vice President, General Counsel was repaid in May 2022. In April 2022 the Company loaned \$1,750 to the CEO of ADG, secured by shares of the Company, bearing interest at 1%. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities, and maturity. All loans are full recourse and interest is due and payable semi-annually. In total, 141,178 shares of the Company having a fair value of \$860 were pledged as collateral on these loans. At September 30, 2022, the loans receivable of \$2,191, including accrued interest, were included in Other Assets on the interim condensed consolidated statement of financial position. During the quarter, interest revenue of \$1 (2021: nil) was received; year-to-date \$8 (2021: \$5)

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P.G. (Gren) Schoch

President and Chief Operating Officer:

Chris Bitsakakis

Chief Financial Officer:

Frank Ientile