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

The following Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations of AirBoss of America Corp. ("AirBoss" or the "Company") has been prepared as of November 8, 2023 and should be read in conjunction with the Unaudited Interim Condensed Consolidated Financial Statements and Notes for the three- and nine-month periods ended September 30, 2023 and the MD&A and Audited Consolidated Financial Statements and Notes for the year ended December 31, 2022. The Unaudited Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The Audit Committee and Board of Directors have reviewed and approved the contents of this MD&A, the Financial Statements and the third quarter press release. All dollar amounts are shown in thousands of US dollars, except per share amounts, unless otherwise specified. Additional information regarding the Company, including its Annual Information Form, can be found on SEDAR+ at www.sedarplus.com and on the Company's website at www.airboss.com.

FORWARD-LOOKING INFORMATION

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

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

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

OVERALL PERFORMANCE

Recent Highlights

(in US dollars, unless otherwise noted)

- AirBoss Defense Group ("ADG") received two additional follow-on orders for the manufacture and sale of up to 42,965 pairs of Extreme Cold Vapor Barrier Boots, commonly referred to as "Bunny Boots", under the previously announced contract with the U.S. Department of Defense. The combined value of these orders is expected to be worth up to $11.8 million, for a total value of $34 million in contract awards for ADG, for the three-month period ended September 30, 2023 ("Q3 2023");
- Undertook cost savings initiatives including headcount reductions that are expected to generate up to an additional $7.7 million in EBITDA across the Company on an annualized basis;
- Net Debt to trailing twelve-months ("TTM") EBITDA was 2.49x this quarter vs. 3.11x in the previous quarter;
- Cash from operations increased by $24.6 million to $8.7 million for Q3 2023 vs. the three-month period ended September 30, 2022 ("Q3 2022"); and
- Declared a quarterly dividend of C$0.07 per common share, a reduction of C$0.03 per common share, which represents a return to historical pre-pandemic dividend levels.

Selected Financial Information

In thousands of US dollars, except share data	Three-months ended September 30		Nine-months ended September 30	
(unaudited)	**2023**	2022	**2023**	2022
Financial results:				
Net sales	**102,195**	104,682	**333,329**	359,702
Profit (loss)	**(4,633)**	(55,957)	**(5,791)**	(43,889)
Adjusted Profit[1]	**(2,592)**	(11,843)	**(3,634)**	234
Earnings per share (US$)				
– Basic	**(0.17)**	(2.07)	**(0.21)**	(1.62)
– Diluted	**(0.17)**	(2.07)	**(0.21)**	(1.62)
Adjusted earnings per share[1] (US$)				
– Basic	**(0.10)**	(0.44)	**(0.13)**	0.01
– Diluted	**(0.10)**	(0.44)	**(0.13)**	0.01
EBITDA[1]	**4,490**	(56,394)	**19,825**	(26,239)
Adjusted EBITDA[1]	**7,248**	1,271	**22,735**	31,438
Net cash provided by (used in) operating activities	**8,727**	(15,847)	**31,626**	(38,655)
Free cash flow[1]	**6,633**	(18,525)	**26,354**	(45,625)
Dividends declared per share (CAD$)	**0.10**	0.10	**0.30**	0.30
Capital additions	**2,214**	2,687	**5,729**	6,983
Financial position:	**September 30, 2023**			December 31, 2022
Total assets	**401,187**			440,766
Debt[2]	**124,305**			143,642
Net Debt[1]	**91,244**			110,083
Shareholders' equity	**185,874**			196,997
Outstanding shares*	**27,130,556**			27,092,041
**27,130,556 at November 8, 2023*				

[1] See Non-IFRS and Other Financial Measures.

[2] Debt as at September 30, 2023 and December 31, 2022 include lease liabilities of $13,593 and $15,007, respectively.

NON-IFRS AND OTHER FINANCIAL MEASURES

This MD&A is based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and Non-IFRS Financial Measures. Management believes that these measures provide useful information to investors in measuring the financial performance of the Company. These measures do not have a standardized meaning prescribed by IFRS and therefore they may not be comparable to similarly titled measures presented by other companies and should not be construed as an alternative to other financial measures determined in accordance with IFRS. These terms are not measures of performance under IFRS and should not be considered in isolation or as a substitute for net income under IFRS.

EBITDA and Adjusted EBITDA are non-IFRS measures used to measure the Company's ability to generate cash from operations for debt service, to finance working capital and capital expenditures, potential acquisitions and to pay dividends. EBITDA is defined as earnings before income taxes, finance costs, depreciation, amortization, and impairment costs. Adjusted EBITDA is defined as EBITDA excluding acquisition costs, and non-recurring costs. A reconciliation of Profit to EBITDA and Adjusted EBITDA is below.

	Three-months ended September 30 (unaudited)		Nine-months ended September 30 (unaudited)	
In thousands of US dollars	**2023**	2022	**2023**	2022
EBITDA:				
Profit (loss)	**(4,633)**	(55,957)	**(5,791)**	(43,889)
Finance costs	**2,637**	1,282	**7,979**	3,767
Depreciation, amortization and impairment	**5,645**	5,412	**16,916**	16,401
Income tax expense (recovery)	**841**	(7,131)	**721**	(2,518)
EBITDA	**4,490**	(56,394)	**19,825**	(26,239)
Professional fees related to AEP negotiations	**—**	664	**152**	676
Write-down of inventory	**—**	57,001	**—**	57,001
Restructuring costs	**2,758**	—	**2,758**	—
Adjusted EBITDA	**7,248**	1,271	**22,735**	31,438

Adjusted profit is a non-IFRS measure defined as profit before acquisition costs and non-recurring costs. This measure and Adjusted earnings per share are used to evaluate operating results of the Company. A reconciliation of Profit to Adjusted profit and Adjusted earnings per share is below.

	Three-months ended September 30 (unaudited)		Nine-months ended September 30 (unaudited)	
In thousands of US dollars	**2023**	2022	**2023**	2022
Adjusted profit:				
Profit (loss)	**(4,633)**	(55,957)	**(5,791)**	(43,889)
Professional fees related to AEP negotiations (after tax)	**—**	508	**116**	517
Write-down of inventory (after tax)	**—**	43,606	**—**	43,606
Restructuring costs (after tax)	**2,041**	—	**2,041**	—
Adjusted profit	**(2,592)**	(11,843)	**(3,634)**	234
Basic weighted average number of shares outstanding	**27,131**	27,092	**27,118**	27,063
Diluted weighted average number of shares outstanding	**27,131**	27,092	**27,118**	28,180
Adjusted earnings per share (in US dollars):				
Basic	**(0.10)**	(0.44)	**(0.13)**	0.01
Diluted	**(0.10)**	(0.44)	**(0.13)**	0.01

Net Debt measures the financial indebtedness of the Company assuming that all cash on hand is used to repay a portion of the outstanding debt. A reconciliation of loans and borrowings to Net Debt is below.

In thousands of US dollars	**September 30, 2023** (unaudited)	December 31, 2022
Net debt:		
Loans and borrowings - current	**2,361**	2,286
Loans and borrowings - non-current	**121,944**	141,356
Leases included in loans and borrowings	**(13,593)**	(15,007)
Cash and cash equivalents	**(19,468)**	(18,552)
Net debt	**91,244**	110,083

The Company has a Net Debt to TTM Adjusted EBITDA ratio of 2.49x (December 31, 2022: 2.43x).

Free cash flow is a non-IFRS measure used to evaluate cash flow after investing in the maintenance or expansion of the Company's business. It is defined as cash provided by operating activities, less cash expenditures on long-term assets. A reconciliation of cash from operating activities to free cash flow is below.

	Three-months ended September 30 (unaudited)		Nine-months ended September 30 (unaudited)	
In thousands of US dollars	**2023**	2022	**2023**	2022
Free cash flow:				
Net cash provided by (used in) operating activities	**8,727**	(15,847)	**31,626**	(38,655)
Acquisition of property, plant and equipment	**(1,452)**	(2,374)	**(4,054)**	(6,131)
Acquisition of intangible assets	**(651)**	(304)	**(1,227)**	(839)
Proceeds from disposition	**9**	—	**9**	—
Free cash flow	**6,633**	(18,525)	**26,354**	(45,625)
Basic weighted average number of shares outstanding	**27,131**	27,092	**27,118**	27,063
Diluted weighted average number of shares outstanding	**27,287**	27,092	**27,528**	27,063
Free cash flow per share (in US dollars):				
Basic	**0.24**	(0.68)	**0.97**	(1.69)
Diluted	**0.24**	(0.68)	**0.96**	(1.69)

OVERVIEW

During Q3 2023, AirBoss continued to focus on cost optimization across the organization while managing operational execution and growth initiatives in each segment, despite continued economic headwinds. AirBoss Engineered Products ("AEP") maintained strong traction and continued to build on momentum established in prior quarters despite some labor unrest with ongoing union strikes with the United Auto Workers Union ("UAW"). AirBoss Rubber Solutions ("ARS") saw a slower sales pace early in the quarter followed by progressive traction later in the quarter, specifically in volumes, although residual softness was still present. ADG experienced some contraction in its industrial and defense businesses with continued efforts focused on cost containment initiatives while maintaining a strong focus on its strategic priorities to convert sales opportunities in the coming quarters. The Company continues to navigate ongoing economic impacts being experienced to varying degrees in each segment, and volume recovery for the remainder of 2023 remains subject to the ongoing management of stable and sustained operations of businesses globally.

The Rubber Solutions segment experienced softness in demand early in Q3 2023, with eventual improved volume in the latter part of the quarter. Despite the economic pressures previously noted, the segment took additional steps to reduce costs and optimize its specialty rubber footprint while it continues to execute on its strategy of delivering strong results with specialty products and fulfilling new business through identified synergies and margin expansion. As a segment, Rubber Solutions continued to invest in research and development to support enhanced collaboration with customers and remained focused on further expanding its range of solutions.

ADG experienced residual softness in its industrial and defense businesses, making for a challenging quarter. As a result of this and the delay in converting opportunities, ADG undertook a series of previously announced cost-cutting measures including a reduction in its workforce. The changes are intended to streamline this segment given reduced activity. ADG remains focused on its survivability solutions platform while targeting traditional defense contracts, which management is focused on converting over the next several years. In addition, ADG continues to work with its key customers to leverage the opportunities in its pipeline, as was evidenced with several additional awards in its molded defense portfolio. Conversion of pipeline opportunities remain subject to timing as delays are expected to continue through the next few quarters. In addition, execution on part of the previously announced awards for Husky 2G vehicles has been delayed further due to ongoing delays in funding and turnover in customer personnel, creating a lack of certainty to the scope, timing and the terms and conditions of these awards.

Within the Engineered Products segment, the momentum generated in prior quarters continued through Q3 2023, despite the ongoing challenges presented by OEM labor strikes, raw material availability, supply chain challenges and the resulting production volatility. The segment continued to execute on its financial sustainability plan including some overhead reductions, in addition to continuing to work with key suppliers and customers to deliver stable financial results. Management also continued to focus on operational improvements including managing variable costs and sustaining a stable hourly workforce, while dealing with volume volatility in the automotive sector and specifically on AEP's products for SUV, light truck and mini-van platforms. The segment also continued its focus and commitment to drive efficiencies and best-in-class automation, as well as diversification of its product lines into sectors adjacent to the automotive space. Given the labor strikes with the UAW, further shutdowns experienced towards the end of Q3 2023 could have some lingering impacts into the next quarter.

Despite the continued headwinds associated with economic and geopolitical issues, the Company's longer-term priorities remain intact and include:

1. Growing the core Rubber Solutions segment by positioning it as a specialty supplier of choice in the consolidating North American market, with a growing focus on building defensible leadership positions in selected compounds;
2. Capitalizing on ADG's scale and capabilities to pursue an array of growth and value-creation opportunities in the broader survivability solutions segment serving both defense and first responder markets;
3. Driving improved performance from Engineered Products through a combination of disciplined cost containment, client relationship expansion, new product development and sector diversification; and
4. Targeting accretive acquisition opportunities across the business with a focus on adding new compounds and products, technical capabilities, and geographic reach into selected North American and international markets.

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

RESULTS OF OPERATIONS - For the three- and nine-month period ended September 30, 2023 compared to 2022

NET SALES

Consolidated net sales for Q3 2023 decreased by 2.4% to $102,195 compared with Q3 2022. The decrease was primarily attributable to lower volume at Rubber Solutions, partially offset by higher sales at Engineered Products.

Consolidated net sales for 2023 year-to-date decreased by 7.3% to $333,329 compared with 2022 year-to-date primarily due to lower sales at AirBoss Defense Group and Rubber Solutions partially offset by strong sales growth at Engineered Products.

Three-months ended September 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Inter-segment net sales	Total
Net Sales	**2023**	**21,193**	**50,967**	**37,486**	**(7,451)**	**102,195**
	2022	23,553	58,484	29,176	(6,531)	104,682
Increase (decrease) $		(2,360)	(7,517)	8,310	(920)	(2,487)
Increase (decrease) %		(10.0)	(12.9)	28.5	14.1	(2.4)

Nine-months ended September 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Inter-segment net sales	Total
Net Sales	**2023**	**75,839**	**163,907**	**116,052**	**(22,469)**	**333,329**
	2022	113,354	178,371	85,857	(17,880)	359,702
Increase (decrease) $		(37,515)	(14,464)	30,195	(4,589)	(26,373)
Increase (decrease) %		(33.1)	(8.1)	35.2	25.7	(7.3)

AirBoss Defense Group

Net sales in the AirBoss Defense Group segment for Q3 2023 decreased by 10.0% to $21,193, from $23,553 in Q3 2022. The decrease was primarily the result of modest decreases in volume in the industrial sector.

Net sales in the AirBoss Defense Group segment for 2023 year-to-date decreased by 33.1% to $75,839, from $113,354 for 2022 year-to-date. The decrease was primarily the result of the completion of the large HHS nitrile examination glove order in the early part of 2022, in addition to softness experienced in the molded defense products and the industrial lines of business.

Rubber Solutions

Net sales in the Rubber Solutions segment for Q3 2023 decreased by 12.9% to $50,967, from $58,484 in Q3 2022. Volume was down 9.1% with decreases across the vast majority of sectors due to decreased momentum at most customer's operations especially in the early part of the quarter followed by a modest recovery towards the end of the quarter. Tolling volume was down 5.9% while non-tolling was down 9.5%. In tolling applications, the Company only realizes net sales on the provision of compounding services for customer-supplied material, versus non-tolling where AirBoss also supplies the raw material inputs that are reflected in net sales.

Net sales in the Rubber Solutions segment for 2023 year-to-date decreased by 8.1% to $163,907, from $178,371 for 2022 year-to-date. Volume was down 17.9% with decreases across the majority of sectors and continued signs of softness with many customer’s operations. Year-to-date tolling volume was down 59.1% while non-tolling was down 9.2%.

Engineered Products

Net sales in the Engineered Products segment for Q3 2023 increased by 28.5% to $37,486, from $29,176 in Q3 2022. The increase was due to higher volumes and favorable mix in SUV and light truck platforms despite some economic headwinds including the UAW labor strike which had a modest impact to production schedules across certain OEMs and Tier 1 suppliers in the quarter.

Net sales in the Engineered Products segment for 2023 year-to-date increased by 35.2% to $116,052, from $85,857 for 2022 year-to-date. The increase was due to stronger volumes in the SUV, light truck and mini-van platforms compared to the same period in the prior year. This was further supported by the ongoing collaboration with key suppliers and customers resulting in improved revenue.

GROSS PROFIT

Consolidated gross profit for Q3 2023 increased by $60,802 to $13,765, compared with Q3 2022, driven primarily by a $57.0 million non-cash charge at ADG in the prior year related to nitrile glove inventory, and improvements in volumes at Engineered Products. Gross profit as a percentage of net sales increased to 13.5% in Q3 2023 compared with (44.9)% for Q3 2022, primarily due to improvements at Engineered Products partially offset by reductions at Rubber Solutions and ADG driven by volume and product mix.

Consolidated gross profit for 2023 year-to-date increased by $53,924 to $53,288 compared with 2022 year-to-date, driven by the $57.0 million non-cash charge noted above and improved margins at Engineered Products. Gross profit as a percentage of net sales increased to 16.0% for 2023 year-to-date compared with (0.2)% for 2022 year-to-date. This increase was primarily a result of the $57.0 million non-cash charge noted above, significant improvements at Engineered Products driven by volume and operational improvements and modest improvements at Rubber Solutions partially offset by volume, product mix and lower margins at ADG driven by the large HHS nitrile examination glove order completed in the early part of the comparable period of 2022.

Three-months ended September 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Total
Gross Profit	**2023**	**2,563**	**7,642**	**3,560**	**13,765**
	2022	(51,299)	8,370	(4,108)	(47,037)
Increase (decrease) $		53,862	(728)	7,668	60,802
% of net sales	**2023**	**12.1**	**15.0**	**9.5**	**13.5**
	2022	(217.8)	14.3	(14.1)	(44.9)

Nine-months ended September 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Total
Gross Profit	**2023**	**15,541**	**24,853**	**12,894**	**53,288**
	2022	(13,874)	26,169	(12,931)	(636)
Increase (decrease) $		29,415	(1,316)	25,825	53,924
% of net sales	**2023**	**20.5**	**15.2**	**11.1**	**16.0**
	2022	(12.2)	14.7	(15.1)	(0.2)

AirBoss Defense Group

Gross profit at AirBoss Defense Group for Q3 2023 increased to $2,563 (12.1% of net sales), from $(51,299) ((217.8)% of net sales) in Q3 2022. The increase was primarily due to the $57.0 million non-cash write-down in the prior year and lower overhead costs which took effect late in the quarter, partially offset by volume and unfavorable mix.

Gross profit at AirBoss Defense Group for 2023 year-to-date increased to $15,541 (20.5% of net sales), from $(13,874) ((12.2)% of net sales) for 2022 year-to-date. The increase was primarily due to the $57.0 million non-cash write-down in the prior year, partially offset by lower volume primarily driven by the large HHS nitrile examination glove order delivered in same period in 2022.

Rubber Solutions

Gross profit at Rubber Solutions for Q3 2023 decreased by 8.7% to $7,642 (15.0% of net sales) from $8,370 (14.3% of net sales) in Q3 2022. Gross margin percentage increased due to cost management, while the overall gross profit decrease was primarily the result of volume reductions and product mix partially offset by managing controllable overhead costs including additional overhead reductions and continuous improvement initiatives.

Gross profit at Rubber Solutions for 2023 year-to-date decreased by 5.0% to $24,853 (15.2% of net sales), from $26,169 (14.7% of net sales) for 2022 year-to-date, primarily as a result of decreased tolling and non-tolling volumes compared to the same period in 2022, partially offset by managing controllable overhead costs.

Engineered Products

Gross profit at the Engineered Products segment for Q3 2023 increased to $3,560 from $(4,108) in Q3 2022. This was primarily the result of favorable volume and product mix in the automotive sector and improved arrangements with key suppliers and customers in addition to operational cost improvements and reduced overhead costs.

Gross profit at the Engineered Products segment for 2023 year-to-date increased to $12,894 from $(12,931) for 2022 year-to-date. This increase was primarily a result of favorable volume and product mix in the automotive sector and improved arrangements with key suppliers and customers with a continued focus on controllable operational cost containment and overhead cost reductions.

OPERATING EXPENSES

Consolidated operating expenses for Q3 2023 increased by $151. The increase was primarily due to $2,758 of restructuring costs recorded during the quarter and increased stock-based compensation expense due to cost recoveries in 2022, offset by a foreign exchange gain (compared to a loss in the comparable period) and lower administrative costs.

Consolidated operating expenses for 2023 year-to-date increased by $8,375. The increase was primarily due to higher stock-based compensation expenses from cost recoveries in 2022, and $2,758 of restructuring costs partially offset by a foreign exchange gain (compared to a loss in the comparable period).

Three-months ended September 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	**2023**	**4,032**	**3,737**	**3,171**	**3,980**	**14,920**
	2022	5,725	3,003	3,379	2,662	14,769
Increase (decrease) $		(1,693)	734	(208)	1,318	151
% of net sales	**2023**	**19.0**	**7.3**	**8.5**	N/A	**14.6**
	2022	24.3	5.1	11.6	N/A	14.1

Nine-months ended September 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	**2023**	**18,506**	**12,139**	**9,127**	**10,607**	**50,379**
	2022	22,257	9,659	8,982	1,106	42,004
Increase (decrease) $		(3,751)	2,480	145	9,501	8,375
% of net sales	**2023**	**24.4**	**7.4**	**7.9**	**N/A**	**15.1**
	2022	19.6	5.4	10.5	N/A	11.7

AirBoss Defense Group

AirBoss Defense Group's operating expenses for Q3 2023 decreased by $1,693 to $4,032 primarily due to lower administrative costs partially offset by $178 of restructuring costs recorded during the quarter and higher selling costs.

AirBoss Defense Group's operating expenses for 2023 year-to-date decreased by $3,751 to $18,506 due to lower administrative costs and selling costs partially offset by restructuring costs recorded in 2023.

Rubber Solutions

Rubber Solutions' operating expenses for Q3 2023 increased by $734 to $3,737. The increase was primarily due to $299 of restructuring costs recorded during the quarter, a smaller foreign exchange gain and higher administrative costs.

Rubber Solutions' operating expenses for 2023 year-to-date increased by $2,480 to $12,139. The change was primarily due to a foreign exchange loss compared to a gain in the comparative period, restructuring costs recorded in 2023, and higher administrative costs.

Engineered Products

Engineered Products' operating expenses for Q3 2023 decreased by $208 to $3,171 due to lower administration costs partially offset by $510 of restructuring costs recorded during the quarter.

Engineered Products' operating expenses for 2023 year-to-date increased by $145 to $9,127 due to restructuring costs recorded in 2023 partially offset by lower administration costs.

Unallocated Corporate Costs

Unallocated corporate costs for Q3 2023 increased by $1,318 to $3,980, primarily due to $1,771 of restructuring costs recorded during the quarter, and cost recoveries from stock-based compensation in the comparative period, partially offset by a smaller foreign exchange loss.

Unallocated corporate costs for 2023 year-to-date increased by $9,501 to $10,607. The increases were primarily due to cost recoveries from stock-based compensation in the comparative period, and higher legal and administrative costs, and restructuring costs recorded in 2023, partially offset by foreign exchange gain compared to a loss in the comparative period.

FINANCE COSTS

Finance costs for the three- and nine-month periods ended September 30, 2023 were $2,637 (2022: $1,282) and $7,979 (2022: $3,767). The increases were primarily due to increased borrowings and higher interest rates under the Company's credit facility.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $841 in Q3 2023 (Q3 2022: recovery of $7,131) for an effective income tax rate of (22.2)% (11.3% in Q3 2022). The Company recorded a 2023 year-to-date income tax expense of $721 (2022: recovery of $2,518) for an effective income tax rate of (14.2)% (2022: 5.4%). The effective tax rates were lower than the comparable periods due to not recognizing all its future tax assets in certain jurisdictions.

PROFIT AND EARNINGS PER SHARE

The quarter's loss totaled $4,633 for Q3 2023, compared with a loss of $55,957 for Q3 2022. Basic and fully diluted earnings (loss) per share in Q3 2023 were $(0.17) compared with $(2.07) for Q3 2022. The year-to-date loss totaled $5,791 for 2023, compared with a loss of $43,889 for 2022. Basic and fully diluted earnings (loss) per share for 2023 year-to-date was $(0.21) compared with $(1.62) for 2022 year-to-date. The decrease in losses is primarily attributable to ADG's $57.0 million inventory write-down in 2022.

QUARTERLY

In thousands of US dollars			Earnings per share	
Quarter Ended	Net Sales	Profit	Basic	Diluted
2023				
September 30, 2023	**102,195**	**(4,633)**	**(0.17)**	**(0.17)**
June 30, 2023	114,058	(2,613)	(0.10)	(0.10)
March 31, 2023	117,076	1,455	0.05	0.05
2022				
December 31, 2022	117,453	11,997	0.44	0.43
September 30, 2022	**104,682**	**(55,957)**	**(2.07)**	**(2.07)**
June 30, 2022	110,547	2,492	0.09	0.09
March 31, 2022	144,473	9,576	0.35	0.34
2021				
December 31, 2021	249,053	15,162	0.56	0.53

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its remaining 2023 operating cash requirements, including required working capital investments, capital expenditures and scheduled debt repayments from cash on hand, cash flow from operations and its committed borrowing facilities. The Company's operating revolving loan facility provides financing up to $250,000. $112,800 was drawn against this facility as at September 30, 2023.

During 2023, cash of $31,626 was provided by operating activities, (2022: $38,655 used), $5,272 was used by investing activities (2022: $6,970), and $25,538 was used by financing activities (2022: $44,040 provided). Cash and cash equivalents increased by $916 from $18,552 to $19,468, adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

Cash provided by operating activities increased by $70,281 compared with 2022. The increase was primarily due to $75,488 less cash used for working capital needs and lower income tax payments of $3,954, partially offset by lower profit of $38,098 and higher interest payments of $4,729.

Cash provided by working capital for 2023 increased to $18,017 (2022: used $57,471) as a result of the following factors:

- Cash provided by accounts receivable was $12,185, primarily related to lower sales at the Rubber Solutions segment and strong collections at the Engineered Products segment.

- Cash provided by inventory was $13,295, primarily related to efforts to reduce raw materials at the Rubber Solutions and Engineered Products segments.
- Cash provided by prepaid expenses was $1,251 primarily due to amortizing of insurance premiums.
- Cash used for accounts payable was $8,614 primarily due to AirBoss Defense Group's delivery of test kits earlier in the year, and lower inventory at the Rubber Solutions segment.
- Cash used for provisions was $100 primarily due to the payout of preferred share units, less new provisions for legal and restructuring costs.

Investing Activities

Property, Plant and Equipment

During 2023, the Company invested $4,054 in capital equipment as follows:

- ADG invested $797. $364 was invested in growth initiatives and the balance to upgrade existing property, plant and equipment;
- Rubber Solutions invested $1,988. $367 was invested in cost savings initiatives, $110 in growth initiatives, and the balance to upgrade existing property, plant and equipment; and
- Engineered Products segment invested $1,269. $50 was invested in cost savings initiatives and the balance to upgrade existing property, plant and equipment.

Intangible Assets

During 2023, the Company invested $1,227 in intangible assets for financial reporting and productivity software.

Financing activities

The Company has a revolving credit facility providing up to $250,000 with an accordion of $75,000 upon the satisfaction of customary conditions for such features. The facility bears interest at Secured Overnight Financing Rate (SOFR) plus applicable margins from 145 to 300 basis points, depending on covenants, and matures on September 23, 2026.

In March 2023, the Company's lenders agreed to amend the credit facility to convert interest from LIBOR to SOFR, add a pricing tier for calculating interest, temporarily increase the maximum permitted leverage for a financial covenant, and exclude certain charges from the calculation of financial covenants.

During 2023 year-to-date, the Company repaid $17,300 under the revolving credit facility (2022: drew $54,400) and paid $1,863 (2022: $1,811) of principal payments for its lease obligations.

The Company paid dividends of $6,084 during the 2023 year-to-date (2022: $6,353).

Government assistance

Scientific research and investment tax credits of $224 (2022: $161) were recognized in the quarter and research and development costs were reduced accordingly; year-to-date $697 (2022: $492).

Dividends

A quarterly dividend of CAD $0.10 per share was declared on August 9, 2023 and paid on October 16, 2023. Total annual dividends declared during 2022 were CAD $0.40 per common share. On November 8, 2023, the Company declared a quarterly dividend of C$0.07 per common share, payable on January 15, 2024 to shareholders of record as at December 29, 2023.

TRANSACTIONS WITH RELATED PARTIES

During the quarter, the Company paid $36 (2022: $42) to companies controlled by the Chairman of the Company for use of office facilities; year-to-date $117 (2022: $127).

In April 2023, the Company amended the $1,750 loan to the former Chief Executive Officer of ADG to bear interest at 2% and extend its maturity to April 2024. The Company has impaired the full value of this loan and is the beneficiary of a pledge of 90,000 shares of the Company as partial collateral for this loan.

In March 2023, the Company amended a CAD $500 share purchase loan to the President & Co-Chief Executive Officer to bear interest at 2% and extend its maturity to March 2028. In July 2023, the Company agreed to forgive the CAD $591 of loans due from the President & Co-Chief Executive Officer by 12.5% annually. 51,178 shares of the Company having a fair value of $165 were pledged as collateral on these loans.

At September 30, 2023, loans to current and former officers totaling $382, including accrued interest, are included in Other Assets on the consolidated statement of financial position ($2,203 at December 31, 2022). All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities, termination of employment, and maturity. All share purchase loans are full recourse and interest is due and payable semi-annually. During the quarter, interest revenue of $4 (2022: $1) was received; year-to-date $22 (2022: $8).

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies in Note 3 to the annual consolidated financial statements for the year ended December 31, 2022, have been applied consistently to all periods presented in the interim condensed consolidated financial statements for the period ended September 30, 2023.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

FINANCIAL INSTRUMENTS

Foreign exchange hedge

At September 30, 2023, the Company had contracts to sell $6,243 from October 2023 to June 2024 for Canadian dollars ("CAD") $8,500. The fair values of these contracts, representing an unrealized gain of $43, are included in trade and other receivables, including derivatives on the interim condensed consolidated statement of financial position. For the quarter ended September 30, 2023, the unrealized changes in fair value, representing a loss of $200 (2022: $1,124), are recorded on the interim condensed consolidated statement of profit and comprehensive income as other income (expense); year-to-date gain of $43 (2022: loss of $1,204).

At December 31, 2022, the Company had contracts to sell $24,662 from January 2023 to September 2023 for CAD $33,000. The fair values of those contracts, representing an unrealized loss of $258 are included in trade and other payables, including derivatives on the interim condensed consolidated statement of financial position.

Interest rate swap

In February and May 2023, the Company entered into interest rate swap agreements for a combined notional amount of $45,000, maturing in February and May 2025. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD SOFR and a weighted average fixed rate of 4.31%.

For the quarter ended September 30, 2023, interest recovery from the swap agreements was $127 (2022: $104); year-to-date $240 (2022: $32).

At September 30, 2023, the fair value of the swap agreements, representing a gain of $690 ($52 as at December 31, 2022), is included in loans and borrowings on the interim condensed consolidated statement of financial position. For the quarter ended September 30, 2023, the change in the fair value, representing a gain of $438 (2022: loss of $68) is recorded on the interim condensed consolidated statement of profit and comprehensive income as finance costs; year-to-date $638 (2022: $201). The Company entered into interest rate swap agreements in order to fix the interest rate on a portion of its borrowings and does not hold them for trading or speculative purposes.

Share price hedge

In November 2022 and February 2023, the Company entered hedging arrangements to reduce its exposure from the change in share price on its share-based compensation costs. At September 30, 2023, the fair value of these agreements, representing a loss of $481 (gain of $223 as at December 31, 2022) is included in trade and other payables, including derivatives on the interim condensed consolidated statement of financial position. The change in fair value, representing an unrealized loss of $447 is recorded on the interim condensed consolidated statement of profit and comprehensive income as other expenses; year-to-date $698. For the quarter ended September 30, 2023, the realized gain from the swap agreements was $3; year-to-date gain of $168.

November 8, 2023