



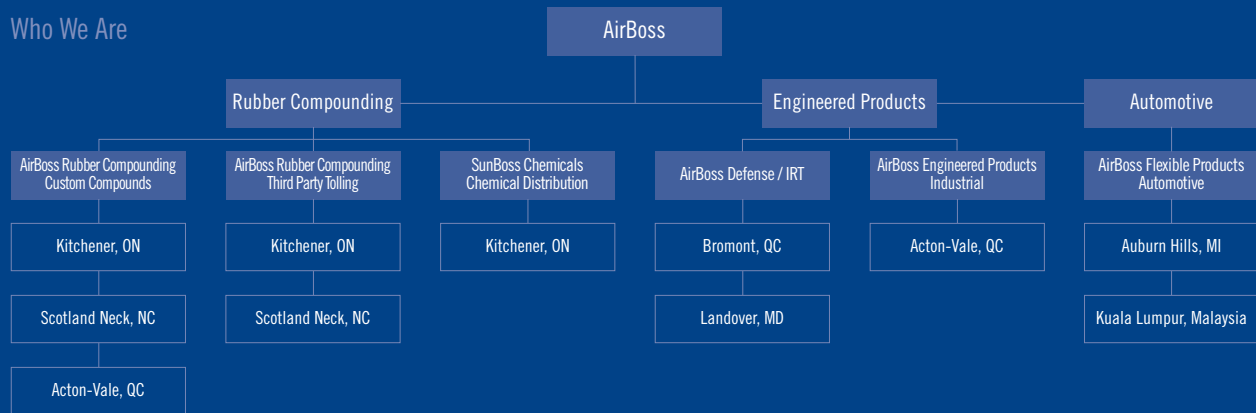
# AIRBOSS OF AMERICA CORP. 2015 ANNUAL REPORT



# TRANSFORMING RUBBER INTO VALUE.

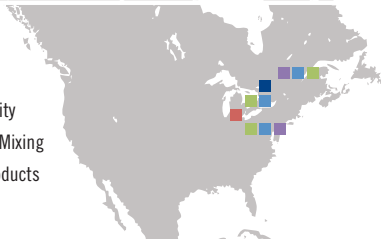
As one of North America’s largest custom compounding companies, AirBoss of America Corp. manufactures customized rubber-based formulations and products used by many industries, including automotive, heavy industry, construction and infrastructure, oil and gas and first-response and military. With a capacity to supply 250 million pounds of rubber annually, we are a primary supplier to a diverse group of rubber-products manufacturers. A growing part of our business is in finished products, where our proprietary rubber formulations and designs are applied to provide solutions to our customer’s problems — such as anti-vibration and noise-dampening solutions for the automotive industry, and the protection of military forces in hazardous conditions. Our common shares (BOS) trade on the Toronto Stock Exchange.

## Who We Are



## Locations

- Head Office
- Research Facility
- Compounding/Mixing
- Engineered Products
- Automotive



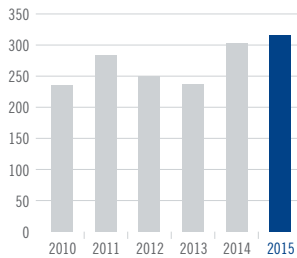
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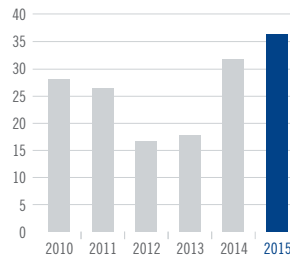
# IN ALL OF OUR BUSINESSES, WE AIM FOR TOP-TIER PERFORMANCE.

## 2015 vs 2014

- Gross margin improved to 18.1%
- Adjusted EBITDA increased by 13.5% to \$36.2 million
- Adjusted EPS improved by 9.9% to \$0.76
- Operational efficiencies continue to drive margin improvement



REVENUE



ADJUSTED EBITDA

We have spent the past three years at AirBoss refocussing our businesses to be in the top-tier in their fields in terms of quality and operational efficiency, and to be suppliers-of-choice to a growing number of discerning customers. In custom rubber compounding, few companies have the capacity of AirBoss Rubber Compounding — coupled with our in-house scientific expertise and engineering talent — to formulate rubber-based compounds for a diversity of end uses. In the automotive industry, AirBoss Flexible Products is a supplier-of-choice primarily to North America’s largest OEMs for anti-vibration and noise dampening products. In military and first-response markets, AirBoss Defense is a world leader in CBRN (chemical, biological, radiological and nuclear) protective gloves, overboots, gas masks and filters, as well as rapidly deployable protective shelter systems.

Our goal is to continue to pursue strategic growth on all fronts, with further investments in executive talent, quality initiatives and strategic acquisitions. Financially, we continue to measure our success through earnings growth, returns on capital employed and invested capital, and the strength of our balance sheet.



**WE'VE MADE  
TWO OPPORTUNE  
ACQUISITIONS.**





**We are committed to growing AirBoss, both organically and through acquisitions.** In 2013, we acquired AirBoss Flexible Products, a well-respected U.S.-based supplier of anti-vibration and noise-dampening parts primarily to the North American automotive industry. That strategy has paid off with revenues increasing by more than 40%, and a doubling of EBITDA. This year, the acquisition of Immediate Response Technologies, LLC (“IRT”), another highly respected U.S. company, is aimed at driving revenues in our defense business by combining two companies with complementary product lines and customer bases.



## → WE ARE DIVERSIFYING FOR STABLE RETURNS.

**For many years, our results at AirBoss were linked too closely with economic and commodity cycles in the resource sector.** Through a determined effort to protect margins and profits, we have diversified our customer base and product mix and are also producing more finished products, building our resistance to cycles. Rubber Compounding now manufactures more sophisticated compounds for a wider customer group. AirBoss Defense no longer relies exclusively on military contracts, having widened its markets and products in healthcare and first-responder markets through the acquisition of IRT. Revenues and margins across our company are becoming more predictable.



## **WE CONTINUALLY IMPROVE OPERATIONAL EFFICIENCY IN A METHODOICAL FASHION.**

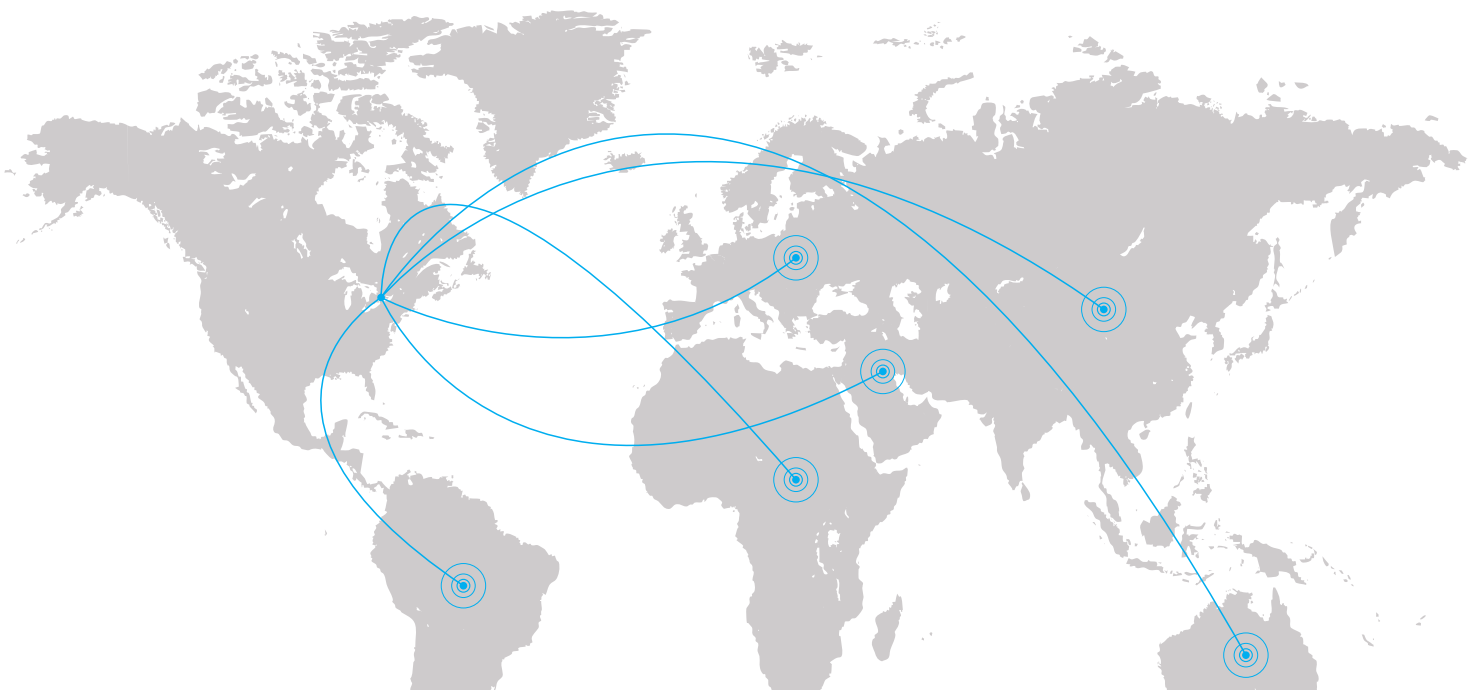
**Margin improvement is a continual process at AirBoss.** We launched a continuous improvement program at AirBoss Flexible Products' plants in 2015 to refine manufacturing and operational processes and labor efficiencies. Once fully implemented across the division, this program is intended to add at least \$1 million annually in incremental earnings.



## → WE ARE FOCUSING ON FINISHED PRODUCTS.

**It has been our strategy to increase the proportion of higher-margin finished products in our business.** AirBoss Flexible Products again released more than 45 new products in 2015 designed for specific automotive platforms, and is on target to maintain that pace. It has evolved from a contract manufacturer of rubber-only anti-vibration parts to a sophisticated, engineering-based business – increasing the contribution from rubber-to-metal bonded parts, induction-bonded parts and parts with higher silicone content. These new offerings have been made possible by close cooperation with our technical staff at AirBoss Rubber Compounding.





## → EXPANDING GLOBALLY.

**In both AirBoss Flexible Products and at AirBoss Defense, we have new opportunities to enter global markets.** The IRT acquisition has expanded our product offering to our legacy client base in Europe, Asia and the Middle East as well as provided access for our existing product line into U.S. government agencies and first-responder organizations. AirBoss Flexible Products, a leader in its field, is working more with non-North American OEMs and actively seeking potential global partnerships or joint ventures with suppliers to the major offshore automakers.

## To Our Shareholders

### 2015 Highlights

- Acquired Immediate Response Technologies, LLC (“IRT”)
- Gross margin improved to 18.1%
- Adjusted EBITDA improved 13.5% to \$36.2 million
- Adjusted EPS improved by 9.9% to \$0.76
- Strong balance sheet
- Amended and expanded our credit facilities
- Significant growth opportunities

AirBoss of America Corp. has had another year of strong results, along with a few challenges that we are actively addressing.

Gross margin dollars increased by 22.5%, and adjusted earnings per share rose by 9.9% to \$0.76. Adjusted EBITDA has grown approximately \$4.3 million, or 13.5%, to \$36.2 million. Our balance sheet remains very healthy, despite the debt financing of our second major acquisition in two years. Free cash flow and debt retirement continue to be on track.

#### **IRT: Adding Growth, Subtracting Risk**

In July of 2015, AirBoss used existing debt facilities to finance the approximately \$37-million acquisition of IRT, a Landover, Maryland-based manufacturer of filters, powered air-purifying respirators, rapidly deployable protective shelter systems and individual isolation systems. IRT’s products are highly complementary to our existing defense product line. The acquisition not only increases the size of that business considerably, it diversifies its offerings and provides greater sustainability through military procurement cycles.

The deal makes sense on many levels. In addition to expanding our product line and diversifying our customer base, we have brought the manufacture of gas mask filters in-house, rather than having to outsource. For major military tenders, owning all parts of our product is an important advantage. IRT is an established supplier to U.S government agencies, as well as to many first-response organizations. A broader product offering will now be available to the military, first-response and industrial markets. The integration of IRT will lift AirBoss Defense into top-tier supplier status.

#### **AirBoss Rubber Compounding**

While sales and volumes at Rubber Compounding were down year-over-year by 17.2% and 7.9% respectively, due in large part to significantly lower rubber prices and reduced investment in the resource sector, higher gross margin and EBITDA were achieved through improved productivity, material purchasing and an increase in higher-margin sales. Consequently, our financial results were the strongest we’ve ever recorded.

In 2010, approximately 40% of sales were with a single customer in the mining sector. In a determined effort to reduce that dependency, we have diversified the customer base so that our top 10 customers represent that same volume today. Going forward, our focus remains on higher-margin compounds for a greater diversity of customers, plus the utilization of our surplus capacity, which, as it fills, will accrue to the bottom line.

Expertise in rubber compound development and quality manufacturing remain our advantages. We have centralized the development of new compound formulations by combining the research and development functions of Engineered Products with Rubber Compounding’s larger technical staff. This change further improves our go-to-market response times and, therefore, our customer service.

### **AirBoss Flexible Products**

Since we acquired Flexible Products in 2013, sales are up by more than 40%, and EBITDA has roughly doubled. Revenue for 2015 increased 14.4% over 2014 to \$142.9 million, while EBITDA dollars were up 29%. These results are in excess of our original projections.

Flexible Products is benefiting from the strong U.S. automobile manufacturing environment, but is actually outpacing the market by a significant margin because of the industry trend toward improved fuel efficiency. To meet CAFE (Corporate Average Fuel Economy) standards, automakers are “light weighting” vehicles. The company’s ability to rapidly design and prototype new products resulted in the introduction of more than 45 new products in 2015. We are on track to introduce a similar number in 2016.

In the second half of 2015, we launched a continuous improvement initiative. While we’ve already begun to see some improvements, we anticipate that this will be an ongoing process, providing benefits well into the future.

### **AirBoss Engineered Products**

Revenues at AirBoss Engineered Products increased \$6.7 million over 2014, largely as a result of the acquisition of IRT increasing sales in the defense business. Industrial products revenue declined due to continued softness in the belting, tire and hose markets.

The defense business experienced a year of the same challenges that convinced us to make the IRT acquisition. Military spending remained low in the United States, in Canada and globally. There were delays in government approvals and in the evaluation of awarded tenders. While that business is not lost, it is postponed, lowering 2015 results. Canada and numerous other countries have expressed interest in increasing their purchases of CBRN products over the next few years.

To further drive results in the defense business and optimize the integration of IRT, we are consolidating four facilities into two. Our Vermont facility has been closed, and operations moved to our Acton-Vale, Quebec facility. The Bromont, Quebec research facility will move operations to both Acton-Vale and IRT’s location in Landover, Maryland. There will be one-time restructuring costs associated with this consolidation, which will be repaid through improved margins over a period of approximately 18 months, yielding bottom-line returns thereafter.

## To Our Shareholders

### OUTLOOK

Today, we are well positioned to achieve the performance and growth we intend. We will continue to increase earnings while managing costs, focussing on these initiatives:

#### **Further Integration**

With the integration of Flexible Products well underway, we will spend 2016 focussing on integrating IRT with our legacy defense business, consolidating operations while merging our sales and marketing teams. There are many opportunities to expand sales across the total product line.

#### **Continuous Improvement**

Particularly at Flexible Products, we will focus on achieving operating efficiencies, and on maximizing customer value while minimizing waste. We anticipate significant margin gains through 2016 and 2017.

#### **Global Expansion**

Our businesses are leaders in their fields and can bring value to global customers. We will actively seek potential partnerships or joint ventures with global suppliers in both the defense and automotive sectors.

#### **R&D**

The R&D operations of our legacy defense business and IRT have been combined and will focus on continued development of new filter technologies and a Low Burden Glove. We have developed a world-class Low Burden Mask. With IRT's globally recognized filters, we now offer an ideal and complete product solution.

#### **Capacity Utilization**

At AirBoss Rubber Compounding, the challenge of increasing capacity utilization remains. As we continue to work with a greater number of smaller customers who require more sophisticated/higher-margin compounds, we are able to grow the business without incremental capital expense.

#### **Acquisitions**

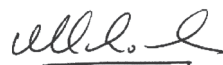
Our balance sheet is strong and will continue to improve through 2016 as earnings continue to grow. With our free cash flow and enhanced credit facilities, we are more than able to finance organic and acquisition growth. The right acquisition is always of interest to AirBoss, particularly one that helps expand our global presence in the defense and automotive markets, or that increases the amount of our rubber sold as a finished product.

### IN CLOSING

Insiders continue to own 27% of the outstanding shares of AirBoss of America Corp. We have a major stake in our company's success and are devoted to maximizing returns for our fellow shareholders.

We'd like to thank Rick Crowe for his commitment and contribution to the company during his 10-year tenure as a Director. Rick has moved to British Columbia and is not standing for re-election to the Board in 2016. We would also like to remember Don Catalano, our long-time friend and advisor who passed away in December.

At the end of this year, one of continued strategic growth and profitability, we want to thank our shareholders and employees, bankers, and other service providers for their support. The year ahead promises to be equally opportune for AirBoss.



**P.G. Schoch**  
Chairman and CEO



**Lisa Swartzman**  
President

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of AirBoss of America Corp. ("AirBoss" or the "Company") has been prepared as of March 15, 2016 and should be read in conjunction with the Consolidated Financial Statements and Notes for the year ended December 31, 2015 prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts are shown in thousands of US dollars, except per share amounts, unless otherwise specified. Additional information regarding the Company, including its Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.airbossofamerica.com](http://www.airbossofamerica.com).

### FORWARD-LOOKING STATEMENTS

*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 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.*

*Forward-looking statements 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 statements involve 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 those forward-looking statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements, including without limitation: impact of general economic conditions; its dependence on key customers; cyclical trends in the tire and automotive, construction, mining and retail industries; sufficient availability of raw materials at economical costs; weather conditions affecting raw materials, production and sales; AirBoss' ability to maintain existing customers or develop new customers in light of increased competition; AirBoss' ability to successfully integrate acquisitions of other businesses and/or companies or to realize on the anticipated benefits thereof; changes in accounting policies and methods, including uncertainties associated with critical accounting assumptions and estimates; changes in the value of the Canadian dollar relative to the US dollar; changes in tax laws and potential litigation; ability to obtain financing on acceptable terms; environmental damage caused by it and non-compliance with environmental laws and regulations; 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 statements.*

*All of the forward-looking information in this Annual Report is expressly qualified by these cautionary statements. Investors are cautioned not to put undue reliance on forward-looking statements. All subsequent written and oral forward-looking statements 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 Annual Report and, whether as a result of new information, future events or otherwise, AirBoss disclaims any intent or obligation to update publicly these forward-looking statements except as required by applicable laws. Risks and uncertainties about AirBoss' business are more fully discussed under the heading "Risk Factors" and under the heading "Risk Factors" in our most recent Annual Information Form and are otherwise disclosed in our filings with securities regulatory authorities which are available on SEDAR at [www.sedar.com](http://www.sedar.com).*

## OVERALL PERFORMANCE

**Fourth Quarter and Full Year Highlights****(In US dollars)**

- Gross margin for the quarter and the year improved from 14.9% to 18.1%
- Gross margin dollars for the quarter increased 15% to \$13.3 million, and increased 22.5% to \$55.3 million for the year
- EBITDA for the quarter increased by 24.3% to \$8.7 million, and by 3.6% to \$30.0 million for the year
- Adjusted EBITDA for the quarter increased by 12.6% to \$8.9 million, and by 13.5% to \$36.2 million for the year.

In 2015 management's commitment to enhancing shareholder value and positioning AirBoss to take advantage of growth opportunities translated into improved performance over the prior year, notwithstanding continued headwinds in certain market segments. These efforts resulted in an increase to our consolidated gross margin (in dollars) of \$10.2 million (or 22.5%) and an increase in unadjusted EBITDA of \$1.0 million (or 3.6%) over 2014. Net income was essentially flat to 2014, as a result of the following charges incurred during the year and their negative impacts on fully-diluted earnings per share:

- Share-based compensation expenses of \$6.2 million (or \$0.20 per share);
- Acquisition and financing transactions expenses and fees of \$2.4 million (or \$0.07 per share); and
- Restructuring costs related to the Defense business of \$1.1 million (or \$0.03 per share).

The Company acquired Immediate Response Technologies, LLC ("IRT") in July and we have begun the integration of its operations into our existing defense business. IRT provides us with an expanded product offering and a larger customer base, improving penetration in our markets. Once complete, we expect the integration of IRT to provide us with a more comprehensive platform of products and programs to support growth within our defense portfolio. We also amended our credit facilities in December, extending maturity dates and increasing available credit to approximately \$138 million, while increasing the flexibility under the credit agreement to further support growth opportunities across the business.

**Selected Financial Information**

*In thousands of US dollars, except share amounts outstanding, per share amounts in US dollars*

Years ended December 31	2015	2014	2013
<b>Financial results:</b>			
Net sales	<b>304,909</b>	303,151	236,325
Net income	<b>13,325</b>	13,725	6,351
Net income per share			
– Basic	<b>0.58</b>	0.60	0.28
– Diluted	<b>0.57</b>	0.60	0.28
Adjusted EPS <sup>1</sup>			
– Basic	<b>0.78</b>	0.70	0.28
– Diluted	<b>0.76</b>	0.69	0.28
EBITDA <sup>1</sup>	<b>29,992</b>	28,948	16,627
Adjusted EBITDA <sup>1</sup>	<b>36,176</b>	31,873	17,910
Net cash (used in) from operating activities	<b>22,961</b>	15,545	32,025
Dividends declared per share	<b>0.24</b>	0.20	0.20
Capital expenditures	<b>10,031</b>	6,832	5,455
<b>Financial position:</b>			
Total assets	<b>217,739</b>	188,906	185,772
Term loan and other debt	<b>76,922</b>	50,948	57,113
Shareholders' equity	<b>99,534</b>	90,035	81,140
Outstanding shares	<b>23,021,850</b>	22,998,760	22,748,116

<sup>1</sup>\*23,026,353 at March 15, 2016

# AirBoss of America Corp.

## MD&A (cont'd)

### <sup>1</sup>Non-IFRS Financial Measures

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

EBITDA	Earnings before interest income, interest expense, income taxes and depreciation and amortization
Adjusted EBITDA	Earnings before interest income, interest expense, income taxes, depreciation and amortization, and share-based compensation expenses
Adjusted EPS	Net income per share before deduction of share-based compensation expenses and related tax effect

EBITDA, Adjusted EBITDA and Adjusted EPS are non-IFRS financial measures directly derived from the consolidated financial statements but do not have a standardized meaning prescribed by IFRS and are not necessarily comparable to a similar measure presented by other issuers.

The Company discloses EBITDA, a financial measurement used by interested parties and investors to monitor the ability of an issuer to generate cash from operations for debt service, financing working capital and capital expenditures and paying dividends. EBITDA is not a measure of performance under IFRS and should not be considered in isolation or as a substitute for net income under IFRS.

A reconciliation of net income to EBITDA and Adjusted EBITDA is presented below:

<i>In thousands of US dollars</i>	2015	2014
EBITDA:		
Net Income	13,325	13,725
Finance costs	2,296	2,278
Depreciation and amortization of intangible assets	9,595	8,626
Income tax expense	4,776	4,319
EBITDA	29,992	28,948
Add back:		
Share-based compensation attributed to changes in share price	6,184	2,925
Adjusted EBITDA	36,176	31,873

## RESULTS OF OPERATIONS – 2015 compared to 2014

### NET SALES

Consolidated Net sales increased by 0.6% in 2015 compared to 2014. The strong sales increases in Automotive and the defense business within AirBoss Engineered Products (“AEP”) were partially offset by sales decreases in Rubber Compounding and the industrial products business within AEP. The sales decrease in Rubber Compounding was primarily from the impact of lower raw material prices, where savings are passed on to customers. The sales increase in the defense business is largely a result of the inclusion of the acquisition of Immediate Response Technologies, LLC (“IRT”).

<i>In thousands of US dollars</i>		Rubber Compounding	AEP	Automotive	Total
Net Sales	2015	110,476	51,562	142,871	304,909
	2014	133,352	44,868	124,931	303,151
Increase (decrease) \$		(22,876)	6,694	17,940	1,758
Increase (decrease) %		(17.2%)	14.9%	14.4%	0.6%

### Rubber Compounding

Sales volume, expressed in pounds shipped, declined by 7.9% as compared to 2014, while net sales decreased by 17.2% over the same period. The decrease in net sales was in large part due to lower raw material prices, which were down approximately 14% over prior year, as savings were passed on to customers. Net sales also decreased due to an increase in tolling revenues as a proportion of total sales volume.

Tolling volume increased by 15.2% and tolling rates were up 3.3% compared to 2014. Sales volume for the non-tolling portion of the business was down 12.9% versus 2014, with declines in off road tire (“OTR”) retreading, mining and conveyor belts segments that were partially offset by increases in the defense and infrastructure segments.

### AirBoss Engineered Products

AEP net sales increased by \$6,694 compared to 2014, due to an increase in the defense business of \$9,616 related to the acquisition of IRT and an increase in sales of products in the legacy defense business, which was slightly offset by a sales decrease of \$2,921 in the industrial products business.

Sales for the defense business were up \$9,616 as a result of the acquisition of IRT combined with an increase in the sales of overboots and Extreme Cold Weather (ECW) boots offset by a reduction of sales in legacy gas masks.

Sales in the industrial products business decreased by 10.9% from 2014 primarily as a result of continued softness in the belting, hose and tire segments that was only partially offset by improvements in niche market applications.

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

## RESULTS OF OPERATIONS – 2015 compared to 2014 (continued)

## Automotive

Net sales at the Automotive division increased 14.4% compared to 2014. Sales increased in the majority of Automotive's product segments, particularly bushings, dampeners and induction bonding segments largely as a result of increased demand in the light truck segment across all manufacturers combined with improved customer penetration through the sale of a broader product mix to key customers.

## GROSS MARGIN

Consolidated gross margin for the year ended December 31, 2015 was \$55,334 (2014: \$45,167), an increase of \$10,167 from 2014. This increase was the result of the acquisition of IRT, increased sales and improved operational efficiencies at Flexible, lower conversion costs in Rubber Compounding and continued focus across the organization over purchasing (particularly raw materials), but was partially offset by lower sales in the industrial products business.

<i>In thousands of US dollars</i>		Rubber Compounding	AEP	Automotive	Total
Gross Margin	<b>2015</b>	<b>22,261</b>	<b>10,353</b>	<b>22,720</b>	<b>55,334</b>
	2014	17,169	9,400	18,598	45,167
Increase \$		<b>5,092</b>	<b>953</b>	<b>4,122</b>	<b>10,167</b>
% of net sales	<b>2015</b>	<b>20.2</b>	<b>20.1</b>	<b>15.9</b>	<b>18.1</b>
	2014	12.9	21.0	14.9	14.9

## Rubber Compounding

Gross margin for Rubber Compounding increased by \$5,092 for the year compared to 2014. This increase was largely due to continuous improvement initiatives to lower conversion costs, and also due to greater control over raw material purchasing and increased tolling volume as a proportion of the overall business mix.

## AirBoss Engineered Products

Gross margin for AirBoss Engineered Products increased by \$953 compared to 2014 primarily due to the mid-year acquisition of IRT as well as increases in the legacy defense business which were partially offset by declines in the industrial products business.

Gross margin as a percentage of net sales in 2015 declined by 0.9% compared to 2014 as a result of temporary inefficiencies related to production being transferred from Vermont to Acton-Vale, Quebec.

## Automotive

Gross Margin for Automotive improved by \$4,122 compared to 2014 and to 15.9% from 14.9% as a percentage of net sales as a result of higher sales volumes, favourable changes in product mix and a focus on continuous improvement initiatives.

## OPERATING EXPENSES

Consolidated operating expenses increased for the year by \$10,092, due in large part to share-based compensation expenses (\$3,259), the inclusion of IRT operating expenses (\$2,516), IRT acquisition expenses (\$1,304), and a restructuring provision at AEP for the consolidation and integration of its manufacturing operations within the defense business (\$1,134).

<i>In thousands of US dollars</i>		Rubber Compounding	AEP	Automotive	Unallocated Corporate Costs	Total
Operating Expenses	<b>2015</b>	<b>7,424</b>	<b>10,818</b>	<b>8,379</b>	<b>8,316</b>	<b>34,937</b>
	2014	6,404	6,392	7,920	4,129	24,845
Increase \$		1,020	4,426	459	4,187	10,092
% of net sales	<b>2015</b>	<b>6.7</b>	<b>21.0</b>	<b>5.9</b>	<b>N/A</b>	<b>11.5</b>
	2014	4.8	14.2	6.3	N/A	8.2

## Rubber Compounding

For the year ended December 31, 2015, Rubber Compounding expenses increased by \$1,020, primarily due to \$124 in salaries and benefits, recruitment efforts and provisions for doubtful accounts of \$496 partially offset by lower equipment maintenance expenses. Product research expenses increased by \$185 and other expenses increased by \$85.

## AirBoss Engineered Products

For the year ended December 31, 2015, AEP's expenses increased by \$4,426. The increase was primarily related to the addition of IRT's expenses of \$2,516, acquisition costs related to IRT for \$1,304, and a restructuring provision recognized on the closing of the facility in Vermont for \$1,134.

## Automotive

For the year ended December 31, 2015, Automotive expenses increased by \$459. The increase was primarily related to general administrative expense increases due to higher costs related to salaries and benefits of \$110, higher sales and marketing costs of \$171. This was partially offset by R&D credits of \$203.



# AirBoss of America Corp.

## MD&A (cont'd)

### RESULTS OF OPERATIONS – 2015 compared to 2014 (continued)

#### Unallocated Corporate Costs

Unallocated corporate costs increased by \$4,187 primarily as a result of higher compensation expenses incurred as a result of stock appreciation rights, restricted stock units, and stock options of \$ 3,259.

#### FINANCE COST

<i>In thousands of US dollars</i>		Rubber Compounding	AEP	Automotive	Corporate	Total
Finance cost	<b>2015</b>	<b>3,582</b>	<b>14</b>	<b>10</b>	<b>(1,310)</b>	<b>2,296</b>
	2014	2,781	13	-	(516)	2,278
Increase (decrease) \$		801	1	10	(794)	18
% of net sales	<b>2015</b>	<b>3.2</b>	-	-	<b>N/A</b>	<b>0.8</b>
	2014	2.1	-	-	N/A	0.8

Finance costs in 2015 were \$2,296 (2014: \$2,278). Overall borrowing rates were lower in 2015 versus 2014; however, this was offset by additional borrowing levels as a result of the acquisition of IRT.

#### INCOME TAX EXPENSE

The Company recorded an income tax expense of \$4,776 (2014: \$4,319) or an effective income tax rate of 26.39% (28.92% in 2014). The statutory rate in Canada in 2015 was 25%.

The Company conducts business in the US and in Canada. Each jurisdiction is subject to different tax rates and the Company's effective tax rate varies depending on the mix and volume of business in each jurisdiction, as well as the impact of incentives, effect of permanent differences and the resolution of prior period tax assessments.

<i>In thousands of US dollars</i>	Tax expense		Rate	
	2015	2014	2015	2014
Expected AirBoss of America Corp. statutory rate	<b>4,620</b>	4,898	<b>25.0%</b>	25.0%
Foreign rate differential	<b>607</b>	512	<b>3.28%</b>	4.63%
Effect of permanent differences	<b>(582)</b>	(433)	<b>(3.14%)</b>	(2.4%)
Filing differences	<b>42</b>	(793)	<b>0.23%</b>	(4.4%)
Other	<b>89</b>	135	<b>0.55%</b>	1.09%
Actual tax	<b>4,776</b>	4,319	<b>25.92%</b>	23.92%

#### NET INCOME AND EARNINGS PER SHARE

Net income in 2015 amounted to \$13,325 compared to \$13,725 in 2014. The basic and fully diluted net earnings per share were \$0.58 (2014-\$0.60) and \$0.57 (2014-\$0.60) based on basic and fully diluted shares outstanding of 23,019,130 (2014-22,859,987) and 23,544,976 (2014-22,934,903) respectively. The decrease is primarily attributable to restructuring costs, acquisition expenses and share-based compensation.

#### QUARTERLY INFORMATION

<i>In thousands of US dollars</i>			Net Income per share	
Quarter Ended	Net Sales	Net Income	Basic	Diluted
<b>2015</b>				
December 31, 2015	<b>73,576</b>	<b>3,731</b>	<b>0.16</b>	<b>0.16</b>
September 30, 2015	77,513	4,036	0.18	0.17
June 30, 2015	76,964	2,378	0.10	0.10
March 30, 2015	76,856	3,180	0.14	0.14
<b>2014</b>				
December 31, 2014	78,043	3,603	0.16	0.16
September 30, 2014	74,219	3,861	0.17	0.17
June 30, 2014	79,473	3,780	0.17	0.16
March 31, 2014	71,416	2,481	0.11	0.11

#### Items impacting comparability of quarters

- The fourth quarter of 2015 was impacted by acquisition costs related to IRT of \$66 and restructuring costs of \$383.
- The third quarter of 2015 was impacted by acquisition costs related to IRT of \$735 and restructuring costs of \$751.
- The second quarter of 2015 was impacted by increased share-based compensation expenses of \$4,099 and acquisition costs of \$503 related to IRT.

**RESULTS OF OPERATIONS – 2015 compared to 2014 (continued)****FOURTH QUARTER 2015 RESULTS**

Consolidated net sales in the fourth quarter of 2015 decreased by \$4,467 compared to the same period in 2014 due to the following factors:

- Lower sales of Rubber Compounding of \$10,290 primarily due to declining commodity prices;
- Increased sales for Automotive of \$3,616; and
- Increased sales for AEP of \$2,207, as a result of increased sales of defense products due to the mid-year acquisition of IRT and increased sales in legacy defense business (partially offset by declining sales of \$952 of industrial products).

Consolidated gross margin increased by \$1,735 compared to the fourth quarter in 2014 from 15% to 18% as a result of the following factors:

- Rubber Compounding gross margins increased by \$654 due to lower conversion costs;
- AEP gross margins increased by \$568 due to mid-year acquisition of IRT and increase in legacy defense business partially offset by decline in the industrial products business and temporary inefficiencies related to production being transferred from Vermont to Acton-Vale; and
- Automotive products gross margins increased by \$513 due to increase in sales volume.

Consolidated operating expenses increased by \$562 compared to the fourth quarter in 2014 primarily due to the following:

- Addition of IRT's expenses of \$1,392 recognized at AEP in which it was partially offset by a decrease in AEP's operating costs incurred in the quarter;
- Restructuring costs at AEP recognized in the quarter of \$383;
- Acquisition costs of \$66 incurred in the quarter related to the IRT acquisition;
- Write-down of other assets of \$351 related to a convertible promissory note;
- Lower expenses in Automotive of \$509; and
- Decrease in equity compensation expense of \$703 as a result of the movement in the stock price.

Tax expense increased by \$808 as a result of more income before tax.

**LIQUIDITY AND CAPITAL RESOURCES****Overview**

The Company expects to fund its 2016 operating cash requirements, including required working capital investments, capital expenditures and scheduled debt repayments from cash on hand, cash flow from operations and committed borrowing capacity. The Company's operating revolving loan facility provides financing up to \$60,000 (2014: \$40,000). No amount was drawn against this facility at December 31, 2015.

For the period ended December 31, 2015, \$22,961 of cash was provided by operations, (2014: \$15,545), \$46,583 (2014: \$9,190) was used for investing activities and \$22,468 (2014: \$10,205 used in) was provided by financing activities. Cash and cash equivalents decreased by \$1,178 from \$13,139 to \$11,961 adjusted for the effect of exchange rate fluctuations on cash held.

**Operating activities**

The factors contributing to the changes in cash from operating activities compared to 2014 include:

- Lower income of \$400 primarily related to higher share-based compensation expense, restructuring costs, and acquisition expenses partially offset by higher income in Rubber Compounding and Automotive;
- Cash used for working capital was \$1,646 (2014: \$8,334 provided) for the period ended December 31, 2015

Accounts Receivable decreased by \$1,203 of which \$7,161 is attributable to Rubber Compounding brought about by lower sales due to declining commodity prices and partially offset by an increase in Automotive. Eighty-two percent of outstanding receivables are within credit terms which is consistent with December 31, 2014 balances.

Inventory at Rubber Compounding has decreased by \$5,152 due to timing of purchase deliveries and lower raw materials costs. Inventory at Automotive and AEP decreased \$532 and \$1,544 respectively, reflecting management's focus on inventory management initiatives.

Prepaid expenses decreased \$491 reflecting lower prepayments mainly by Rubber Compounding compared to the prior year.

Accounts payable decreased \$8,437 due to timing of payments.

Income tax paid was \$3,026, \$461 lower from the timing of required remittances.

The Company paid interest of \$1,733 in 2015 (2014: \$2,170).

**Investing Activities****Acquisition of subsidiary**

On July 24, 2015, through its wholly-owned subsidiary AirBoss-Defense Inc., acquired all of the membership interests of IRT for \$36,770 financed with new term debt under its existing credit facilities.

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

**Property, Plant and Equipment**

In 2015, Rubber Compounding invested \$247 in North Carolina's equipment utilization improvement projects and \$1,125 for growth support on mixer replacement efforts. In Kitchener, \$261 was invested in operational efficiencies, \$21 to support environmental improvement efforts, and \$2,803 to replace capital and manufacturing equipment.

AEP invested \$2,747 in property, plant and equipment. Of this, \$1,468 was invested in growth support initiatives, \$691 on cost savings efforts, \$404 to replace industrial machinery and equipment, and \$184 mainly to support health and safety and product research. In 2015, AEP's capital investment was offset by a reduction in capital assets of \$213 in respect of provincial tax credits.

Automotive invested \$1,952 to purchase machinery and equipment for growth initiatives, \$290 to replace existing machinery and upgrade system requirements, and \$51 mainly to support cost saving and environmental initiatives.

Corporate invested \$89 in leasehold improvements and \$77 in sustaining capital.

**Intangible assets**

The Company invested \$581 in software to support customer requirements, management, costing, maintenance and ancillary systems.

**Financing activities**

During the third quarter of 2015, the Company borrowed an additional \$38,000 pursuant to a new term loan under its existing debt facilities to finance the acquisition of IRT. The \$38,000 term loan bore interest at LIBOR plus applicable margins from 150 to 250 basis points depending on the leverage ratio, with interest and principal payments due quarterly, and maturing October 18, 2018.

During the fourth quarter of 2015, the Company amended its senior secured credit facilities to, among other things, increase the availability to approximately US\$138,000, extend the maturity of the facilities and increase flexibility under the governing credit agreement to support future growth opportunities.

The aggregate availability under the Company's credit facilities is now approximately \$138,000, comprised of an increased \$60,000 revolving facility, a term loan of \$75,000 (consolidating the two prior outstanding acquisition financing loans), a term loan of C\$4,300 (unchanged from the prior facility) and an accordion feature of up to an additional \$50,000 of availability, upon the satisfaction of customary conditions for such features. The maturity dates of the revolving credit facility and the US\$ term loan were extended from October 2018 to December 2020, while the maturity date of the C\$ term loan remains at October 2018.

In 2015, under the new credit agreement, the operating line consists of \$30,000 US Revolving Credit facility and a \$30,000USD equivalent Canadian Revolving Credit Facility. \$60,000 of this facility is unused as at December 31, 2015.

During the year 2015, the required principal repayments of \$12,037 (2014: \$5,413) were made pursuant to the term loan agreement, including a repayment of \$6,319 related to the CAD \$7,900 term debt.

The Company paid dividends of \$4,217 during 2015 (2014: \$4,193). During 2014 and 2015, the Company did not purchase shares for cancellation under a Normal Course Issuer Bid.

**Commitments and contractual obligations**

The Company's contractual obligations as at December 31, 2015 are summarized below:

	Payments Due In						Total
	2016	2017	2018	2019	2020	Thereafter	
Term loan and other debt	4,064	3,991	8,274	5,625	56,250	-	78,204
Operating leases - equipment	227	202	80	26	8	-	543
Operating leases - premises	1,770	1,659	1,626	1,360	432	396	7,243
Purchase obligations	3,794	-	-	-	-	-	3,794
<b>Total</b>	<b>9,855</b>	<b>5,852</b>	<b>9,980</b>	<b>7,011</b>	<b>56,690</b>	<b>396</b>	<b>89,784</b>

The Company has inventory purchase commitments at the end of 2015 for its AEP and Rubber Compounding business segments of \$3,059 and \$735 (2014: \$2,000 and \$1,600) respectively. The Automotive segment had no inventory purchase commitments at the end of 2015 and 2014.

**Government assistance**

During 2015, AEP recognized grants of \$498 (2014: \$1,401) to support certain initiatives which were offset against expenses.

During 2015, Rubber Compounding recognized \$19 (2014: \$35) to support certain initiatives which were offset against expenses.

During 2015 and 2014, Automotive recognized no grants.

Scientific research and investment tax credits of \$489 (2014: \$815) were recognized in 2015; research and development costs were reduced accordingly. In addition, \$213 (2014: \$39) was recognized as a reduction to capital assets in respect of provincial tax credits.

**Dividends**

A quarterly dividend of \$0.06 per share was declared on November 4, 2015 and paid January 14, 2016. Total dividends declared during 2015 were \$0.24 per common share compared to \$0.20 per common share in 2014.

**Outstanding shares**

As at March 15, 2016 the Company had 23,026,353 common shares outstanding.

**TRANSACTIONS WITH RELATED PARTIES**

Included in the operating lease commitments was a rental agreement for corporate office space between the Company and a company controlled by the Chairman of the Company. The monthly lease rate approximates fair market rental value. During the year, the Company paid rent for the corporate office of \$143 (2014: \$164).

During the year, the Company paid fees for the use of a facility in South Carolina of approximately \$22 (2014: \$21) to a company in which the Chairman is an officer.

In addition, during the year, Flexible paid rent of \$1,115 to a company controlled by the President of our Automotive division to utilize its office and manufacturing facilities (2014: \$1,050). The lease provides for monthly payments equivalent to an annual rental of \$1,170 and expires in 2019.

**TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL**

Key management includes directors (executive and non-executive), CEO, President, CFO and divisional presidents. The compensation expense to key management for employee services is shown below:

<b>December 31</b> <i>In thousands of US dollars</i>	<b>2015</b>	2014
Salaries and other short term benefits	<b>2,211</b>	2,784
Pension/Post-employment benefits	<b>43</b>	(38)
Share-based payment expense	<b>5,402</b>	2,822
	<b>7,656</b>	5,568

The amounts disclosed in this table are the amounts recognized as operating expenses for accounting purposes during the period and do not necessarily represent amounts receivable or received in cash.

The Company's executive compensation plan consists of base salary, performance bonuses, and long-term compensation including stock options, restricted stock units (subject to shareholder approval), stock appreciation rights and retirement benefits.

Key management and directors own 27.1% of the outstanding common shares.

During 2014, the Company invested \$550 in the form of a convertible promissory note in a company of which the Deputy Chairman of the Company is the chairman. This note can be converted to an equity interest under the following conditions: (1) if the company has completed "qualified financing" raising \$1 million in gross proceeds (excluding the company's loan); the note converts automatically; (2) if no "qualified financing" takes place prior to the maturity date, the Company has the option to convert into common stock within 60 days prior to the maturity date of the note. The note bears interest at 8% per annum. Unless converted or prepaid earlier, principal and accrued interest on the note will be due on April 11, 2016.

During the year, interest income on this convertible promissory note of \$44 (2014: \$32) is recorded on the statement of financial position included in other assets and recorded on the statement of income as interest income.

The convertible promissory note is accounted for as a loan receivable with separation of the conversion options that represent embedded derivatives. The loan is initially recognized at its fair value by discounting future cash flows at market interest rate for similar financial debt without the conversion options and is subsequently measured at amortized cost. The embedded derivatives are accounted for at fair value, which is currently considered nominal.

During the fourth quarter of 2015, a full provision was recorded against the accrued interest of \$76 and the convertible promissory note was written down to \$275 to recognize the other asset at its fair value.

During 2014, the Company provided share purchase loans of CAD \$1,000 each to both the President and Chief Financial Officer to purchase shares of the Company stock. The promissory notes are due upon the earlier of the disposition date of all or any part of the pledged securities or November 24, 2019. The promissory notes bear interest at 1% annually with full recourse and interest is due and payable semi-annually. 201,000 shares of the Company having a fair value of \$2,537 were pledged as collateral. At December 31, 2015, the promissory notes of \$1,447 including accrued interest of \$1, were included in other assets. During the year, interest of \$16 (2014: \$nil) was paid.

**NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

In July 2014 the IASB finalized "IFRS 9", "Financial Instruments". The standard is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The new standard includes revised guidance on the classification and measurement of financial assets and liabilities, and hedge accounting. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"). The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

On December 18, 2014 the IASB issued amendments to IAS 1 "Presentation of Financial Statements" as part of its major initiative to improve presentation and disclosure in financial reports ("the Disclosure Initiative"). The amendments are effective for annual periods beginning on or after January 1, 2016. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

On January 13, 2016 the IASB issued IFRS 16 "Leases". This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. These amendments will not require any significant change to current practice, but should facilitate improved financial statements disclosures. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases*. The Company is currently assessing the impact of these amendments on its consolidated financial statements.

### CRITICAL ACCOUNTING ESTIMATES

The Company's preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The Company's estimates are based upon historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of the Company's ongoing evaluation of these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amounts for revenues and expenses. Actual results may differ from these estimates under different assumptions. These estimates and assumptions are affected by management's application of accounting policies.

The Company's critical accounting policies are those that affect our Consolidated Financial Statements materially and involve a significant level of judgment by the Company. A summary of the significant accounting policies, including critical accounting policies, is set forth in Note 3 to the Consolidated Financial Statements. The Company's critical accounting estimates include valuation of accounts receivable and inventory, valuation of goodwill and other long-lived assets, accounting for income taxes, and government assistance.

#### Valuation of Accounts receivable

A provision for one customer of \$492 was recognized in 2015.

#### Valuation of inventory

The majority of the Company's products are manufactured against orders and inventory on hand is primarily raw materials or finished goods awaiting shipment or customer release.

A provision for obsolete inventory is established based on materials on hand that can no longer be used for customer orders based on a review of historical and forecasted sales, as well as a technical review to see if such materials can be reworked.

Management reviews the carrying cost of its inventory to ensure it is measured at the lower of cost and net realizable value by examining current replacement cost and the quoted pricing to customers over the estimated time frame to consume the inventory on hand and irrevocable commitments.

The Company's provision for obsolete inventory and the write-down of inventory to net realizable value may require an adjustment should any of the above factors change.

At December 31, 2015, a reserve for impaired inventory in Rubber Compounding represents \$506 (2014: \$368). AEP maintains a provision of \$482 (2014: \$590) related to certain styles and sizes of protective wear. Automotive recognized \$144 (2014: \$122) as a reserve for impaired inventory.

#### Valuation of Goodwill

The Company reviews and evaluates goodwill for impairment when an indicator of impairment exists in the associated cash generating units, but at least on an annual basis. In determining whether impairment has occurred in one of the Company's cash generating units, management compares the cash generating unit's carrying value to its recoverable amount based on value in use. Value in use was determined by the future cash flows generated from the continuing use of the unit. The calculations are most sensitive to the discount rate and growth rate. Determination of growth rate is based on a number of assumptions arising from the most current financial performance of each cash generating unit, the upcoming annual budget for each reporting unit and the historical variability of earnings. Other factors, such as any foreign exchange volatility and volatility in world markets for rubber and carbon black can also materially alter our expectations. Accordingly, management's judgment is required to determine whether these factors at any one point in time and in light of business initiatives, suggest a major change, positive or negative, to the prospects of the business and, therefore, to the valuation of goodwill. No impairment charge was required in 2015 or 2014.

#### Other Long-lived Assets

The Company reviews and evaluates long-lived assets for impairment when events or changes in economic and other circumstances indicate that the carrying value of such assets may not be fully recoverable. The net recoverable value of an asset, or cash generating unit, is calculated as the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. Future net cash flows are developed using assumptions that reflect the planned course of action for an asset given management's best estimate of the most probable set of economic conditions. Inherent in these assumptions are significant risks and uncertainties. In the view of management, there are no indicators of impairment based on assumptions which they believe to be reasonable and no impairment charge was recorded in 2015 and 2014.

#### Accounting for Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the Consolidated Financial Statements. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and future tax liabilities and assets for the future tax consequences of events that have been recognized in the Consolidated Financial Statements or tax returns. In determining both the current and deferred components of income taxes, the Company interprets tax legislation in a variety of jurisdictions, as well as makes assumptions about the expected timing of the reversal of deferred tax assets and liabilities and recognition of deferred tax assets is based on a probable criteria. If its interpretations differ from those of tax authorities or if the timing of reversals is not as anticipated, the provision or relief for income taxes could increase or decrease in future periods. Additional information regarding our accounting for income taxes is contained in Note 15 to the Consolidated Financial Statements. Deferred tax assets have been recorded relating to loss carry-forward amounts as management believes it is more likely than not that these will be used before expiration.

#### Government Assistance

Management evaluates its best estimates of the amount of government grants recoverable at each reporting date as an offset against the related expense or capital expenditure, under the terms of agreements or based on its interpretation of existing government programs. If its interpretations differ from those of the relevant tax authorities or program administrators, the amount recoverable may increase or decrease in future periods.

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

## FINANCIAL INSTRUMENTS

## Foreign exchange hedge

There were no forward contracts outstanding at December 31, 2015. At December 31, 2014, the Company had contracts to sell US \$10,460 in 2015 for CAD \$12,000. The fair value of these contracts, representing a loss of \$116 is recorded on the statement of financial position included in trade and other payables, including derivatives and changes in fair value recorded on the statement of income as expense.

## Interest rate swap

During 2014, the Company entered into an interest rate swap agreement for a notional amount of \$22.5 million. 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 0.98%. The swap agreement matures on February 27, 2017.

During 2015, the net interest expense of the swap agreement was \$180 and \$196 was paid; (2014: \$159 and \$136 was paid).

For the year ended December 31, 2015, the fair value of this agreement, representing a loss of \$73, (2014: loss of \$76) is recorded on the statement of financial position included in loans and borrowings and changes in fair value are recorded on the statement of income as finance costs.

The Company has entered into this interest rate swap agreement in order to fix the interest rate on a portion of its term loan and it does not intend to hold for trading or speculation purposes.

## RISK FACTORS

## Impact of Economic Cycle

The demand for the Company's products can vary in accordance with general economic cycles and the economic conditions of the industry sectors that are served by the Company. In addition, such industry sectors are cyclical in nature. The Company is particularly sensitive to trends in the automotive, tire, energy generation, construction, mining and transportation industries because these industries are significant markets for the Company's business and are highly cyclical. In a severe economic slowdown, prices for coal, copper and other mined materials may fall, affecting demand for conveyor belting, off-road retread tires and other rubber products manufactured by our customers out of rubber compounds manufactured by AirBoss.

## Dependence on Key Customers and Contracts

From time to time, a significant portion of the Company's sales for a given period may be represented by a small number of customers. In 2015, one customer represents 8% (2014 –10%) of total sales. Five customers represented 32% of sales in 2015 (2014 – 30%). The loss of any such customers or the delay or cancellation of any orders under certain high-volume contracts could have a significant impact on the Company.

## Raw Materials and Inventory

The Company depends on certain outside sources for raw materials used in the production of its products, the price and availability of which are subject to market conditions. As a result, any unforeseen shortage of such raw materials could delay delivery, increase costs and decrease profitability. This occurred in 2008 and recurred in 2011 as the world-wide production of key materials such as synthetic rubber and carbon black did not keep up with demand. The Company was not subject to shortages at that time as it maintains supply sources in different areas of the world. This cannot be relied upon to avoid shortages in the future.

Raw material markets have been extremely volatile with key materials doubling or halving in price within a short period. Excess inventory or shortages could prove costly to the Company in these markets.

The Company does not have long-term supply contracts with its suppliers and purchases most raw materials on a purchase order basis. The price of many raw materials, such as carbon black and synthetic rubber, ethylene propylene diene monomer ("EPDM") and silicone is directly or indirectly affected by factors such as exchange rates and the price of oil. Although the Company attempts to pass price changes in raw materials on to its customers, it may not always be able to adjust its prices, especially in the short-term, to recover the costs of increased raw material prices. Conversely, if raw material prices decrease significantly and rapidly, the Company may be at risk to recover the cost of any inventory purchased based on demand at higher prices.

The following table approximates the financial impact (assuming changes are not passed along to its customers) on the Company of a 10% increase in the cost of its most critical raw materials based upon purchases made in the respective years:

\$Millions	Earnings before tax	
	2015	2014
Natural and synthetic rubber	(2.06)	(2.89)
Carbon black	(1.24)	(2.06)
EPDM	(0.68)	(0.69)
Silicone	(1.02)	(0.83)
	(5.00)	(6.47)

# AirBoss of America Corp.

## MD&A (cont'd)

### Weather

The Company uses natural rubber in the manufacture of certain rubber products. Weather conditions impact the harvesting season and supply of natural rubber.

Certain products are acquired overseas by ocean freight. Weather conditions can impact timely delivery.

### Competition

The Company competes directly against major North American companies in the custom rubber compounding, automotive and industrial rubber product market segments. Some of these companies have strong established competitive positions in these markets. In the case of rubber compounding, the industry leader may have greater resources, both financial and technical, than the Company and has long-standing relationships with some of the Company's prospective customers using well-established marketing and distribution networks. Furthermore, since there is a commodity-like element to certain segments of the Company's rubber mixing business, the customers of this business are price sensitive and may be able to purchase their requirements elsewhere in a relatively short period of time. The Company competes with international companies who may also have greater financial resources or who may be sheltered by domestic tariffs.

### Currency Exposure

The Company has revenues and expenses denominated in both Canadian ("CAD") and US ("USD") dollars. In addition, the cost to the Company of certain key raw materials and other expense items and the competitiveness of prices charged by the Company for its products will be indirectly affected by currency fluctuations. Changes in the value of the Canadian dollar relative to the US dollar could have a material positive or adverse effect on the Company's results of operations.

The Company reviews its currency exposure positions from time to time and reacts accordingly by increasing or decreasing the proportion of operating or term loan denominated in CAD funds as a natural balance sheet hedge or establishing forward contracts to purchase CAD funds to manage its foreign exchange risk related to cash-flow. However, there is no assurance that such strategies will be successful or cost effective and the profitability of the Company's business could be adversely affected by currency fluctuations. The following table approximates the following impact on the Company of a \$0.10 decrease in the value of one CAD dollar in the Company's USD functional currency (million):

\$Millions	Earnings before tax	
	2015	2014
Sales (1)	(2.5)	(3.1)
Purchases (2)	6.3	5.8

(1) Based upon Canadian dollar-denominated sales in 2015.

(2) Based upon combined 2015 Canadian purchases and expenses.

### Environmental

The Company handles various chemicals and oils in its manufacturing process, the nature of which may expose it to risks of causing or being deemed to have caused environmental or other damages. While its use of potentially hazardous materials is limited, the Company ensures that its operations are conducted in a manner that minimizes such risks and maintains insurance coverage considered reasonable by management. To date, no regulatory authority has required the Company to pay any material fines or remediation expenses in connection with any alleged violation of environmental regulation. However, there can be no assurance that future environmental damage will not occur or that environmental damage due to prior or present practices will not result in future liabilities. The Company is subject to environmental regulation by federal, provincial, state and local authorities. While management believes that the Company is in substantial compliance with all material government requirements relating to environmental controls on its operation, changes in such government laws and regulations are ongoing and may make environmental compliance increasingly expensive. It is not possible to predict future costs, which may be incurred to meet environmental obligations.

### Product Liability and Warranty Claims

As a manufacturer of rubber-based products, the Company faces a risk of product liability and warranty claims. Although the Company carries commercial general liability insurance in an amount considered reasonable by industry standards, any claim which is successful and is not covered by insurance or which exceeds the policy limit could have an adverse effect on the Company. Warranty claims have not been material and are within industry standard expectations.

### Capacity and Equipment

The rubber compounding facilities have an annual capacity to produce approximately 250 million pounds at the current product mix.

The Company remains committed to continuous maintenance and upgrading of its equipment. Critical equipment remains not only in a high state of repair, but is also technologically up to date so that the Company is able to ensure the reliability of supply at competitive prices and at a high quality standard.

The Company has also made investment in capacity and efficiency in its Acton operations. In recent years, the Company purchased molds and injection equipment and established a production facility in Vermont to enhance its presence in protective products, such as CBRN protective gloves, defense footwear and gas masks. The Vermont facility was closed in the fourth quarter of 2015. Operations and production were relocated to the Acton-Vale, Quebec facility. The recent acquisition of Flexible increased the number of rubber injection molding presses; continued growth will use up any existing excess capacity.

Should additional equipment be required to fulfill any substantial increases in sales, it can be readily sourced in the market.

## DISCLOSURE CONTROLS AND PROCEDURES

In accordance with the provisions of National Instrument 52-109 – Certification of Annual and Interim Filings, management, including the CEO and CFO, have limited the scope of their design of the Company's disclosure controls and internal controls over financial reporting to exclude such controls, policies and procedures of Immediate Response Technologies, LLC, a business that the issuer acquired not more than 365 days before the issuer's financial year end. This scope limitation is based on time required to assess IRT's disclosure controls and procedures, and internal controls over financial reporting in a manner consistent with the Company's other operations. Summary financial information regarding IRT is as follows:

Summary financial information of IRT as at December 31, 2015:

- Current assets of \$5,862
- Non-current assets of \$31,823
- Current liabilities of \$842
- Non-current liabilities of \$277

Summary financial information of IRT for the 161 days ended December 31, 2015:

- Net Sales of \$8,684
- Loss of \$7

As of the end of the fiscal year of the Company, an evaluation was carried out under the supervision of and with the participation of the Company's management, including our CEO and CFO, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective as of December 31, 2015, the end of the period covered by management's discussion and analysis, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by officers within those entities.

The Company's CEO and its CFO are responsible for establishing and maintaining the Company's disclosure controls and procedures. The Disclosure Committee, composed of senior managers of the Company, assists the CEO and CFO in evaluating the information and appropriateness of material subject to public disclosure.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has designed internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with IFRS in its consolidated financial statements of the other operations not subject to the scope limitation. The CEO/Chairman and the CFO have supervised management in the evaluation of the design and effectiveness of the Company's internal controls over financial reporting as at December 31, 2015 for the operations not subject to the scope limitation and believe the design and effectiveness of the internal controls to be effective.

## CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent period, there have been no changes in the Company's existing 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.

Management has not yet assessed IRT's internal controls over financial reporting.

## OUTLOOK

In the fourth quarter of 2015, our businesses continued to experience similar market conditions and performed similarly to the previous three quarters. Rubber Compounding continued its strong financial performance driven by our efforts to diversify our customer base, improve our product mix and focus on operational efficiencies and we believe we can achieve further improvements in 2016. The Automotive business maintained its growth momentum and operational improvements into the fourth quarter, and we expect it to continue to perform strongly into 2016 on the strength of the US automotive manufacturing sector as well as the positive impact of continuous improvement initiatives launched in 2015. At Engineered Products, commitment levels and timing for defense spending globally remain uncertain and this continues to be a challenge for us in terms of the timing of expected tenders and awards of new business for our Defense business. However, we expect the on-going integration of IRT and the completion of the restructuring within the Defense business to position our business to benefit from an increase in global defense spending. The Industrial products business continues to experience softness in demand due to volatility among many of its market segments, and we remain committed to work on business development projects for new customers with diversified end-use applications.

2015 was a year where AirBoss positioned itself for continued growth, both organic and via the strategic acquisition of IRT, and realized tangible benefits from our focus on operational improvement initiatives. We will maintain our focus on operational initiatives in 2016 and believe AirBoss is positioned to take advantage of growth opportunities in all of our divisions.



## Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of AirBoss of America Corp. and all the information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared by management, in accordance with IFRS. When alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented in this annual report and has ensured that it is consistent with that presented in the financial statements.

AirBoss of America Corp. maintains systems of internal accounting and administrative controls consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and all members are outside directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers the engagement or re-appointment of the external auditors for review by the Board and approval by the shareholders.

KPMG LLP, the Company's external auditors, who are appointed by the shareholders, audited the consolidated financial statements as of and for the years ended December 31, 2015 and December 31, 2014 in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. KPMG LLP has full and free access to the Audit Committee.

March 15, 2016



**P. Gren Schoch**  
Chairman & Chief Executive Officer



**Wendy Ford**  
Chief Financial Officer

## Independent Auditors' Report

### To the Shareholders of AirBoss of America Corp.

We have audited the accompanying consolidated financial statements of AirBoss of America Corp., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AirBoss of America Corp. as at December 31, 2015 and December 31, 2014 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada,  
March 15, 2016

## Consolidated Statement of Financial Position

<i>In thousands of US dollars</i>	<i>Note</i>	<b>December 31, 2015</b>	December 31, 2014
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		<b>11,961</b>	13,139
Trade and other receivables	5	<b>42,148</b>	42,546
Prepaid expenses		<b>2,969</b>	2,536
Inventories	6	<b>36,205</b>	39,655
Current income taxes receivable		<b>1,820</b>	652
Other Assets	9	<b>275</b>	-
<b>Total current assets</b>		<b>95,378</b>	98,528
<b>Non-current assets</b>			
Property, plant and equipment	7	<b>62,092</b>	55,334
Intangible assets	8	<b>58,379</b>	32,277
Other assets	9	<b>1,890</b>	2,767
<b>Total non-current assets</b>		<b>122,361</b>	90,378
<b>Total assets</b>		<b>217,739</b>	188,906
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Loans and borrowings	11	<b>4,064</b>	11,663
Trade and other payables, including derivatives		<b>31,472</b>	38,437
Employee benefits	18	<b>1,143</b>	1,445
Provisions	12	<b>13</b>	2,956
<b>Total current liabilities</b>		<b>36,692</b>	54,501
<b>Non-current liabilities</b>			
Loans and borrowings	11	<b>72,858</b>	39,285
Employee benefits	18	<b>508</b>	434
Provisions	12	<b>1,348</b>	280
Deferred income tax liabilities	15	<b>6,799</b>	4,371
<b>Total non-current liabilities</b>		<b>81,513</b>	44,370
<b>Total liabilities</b>		<b>118,205</b>	98,871
<b>EQUITY</b>			
Share capital	13	<b>37,681</b>	37,784
Contributed surplus	13	<b>1,691</b>	1,074
Retained earnings		<b>60,162</b>	51,177
<b>Total equity</b>		<b>99,534</b>	90,035
<b>Total liabilities and equity</b>		<b>217,739</b>	188,906

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

On behalf of the Board



**P.G. Schoch**  
Director



**Robert L. McLeish**  
Director

## Consolidated Statement of Income

## For the year ended December 31

In thousands of US dollars

	Note	2015	2014
Revenue		304,909	303,151
Cost of sales	6	(249,575)	(257,984)
<b>Gross profit</b>		<b>55,334</b>	45,167
General and administrative expenses	4	(26,205)	(19,815)
Selling and marketing expenses		(5,501)	(5,131)
Research and development expenses	16	(2,057)	(1,563)
Other income (expenses)	9	(1,174)	1,664
<b>Operating expenses</b>		<b>(34,937)</b>	(24,845)
<b>Results from operating activities</b>		<b>20,397</b>	20,322
Finance costs	11,18	(2,296)	(2,278)
<b>Profit before income tax</b>		<b>18,101</b>	18,044
Income tax expense	15	(4,776)	(4,319)
<b>Profit for the year</b>		<b>13,325</b>	13,725
Earnings per share			
Basic	14	0.58	0.60
Diluted	14	0.57	0.60

## Consolidated Statement of Comprehensive Income

## For the year ended December 31

In thousands of US dollars

	2015	2014
<b>Profit for the year</b>	<b>13,325</b>	13,725
<b>Other comprehensive income</b>		
<b>Items that will never be reclassified to profit or loss</b>		
Defined benefit plan actuarial losses	(43)	(489)
<b>Other comprehensive income for the year, net of income tax of \$14 (2014: \$168)</b>	<b>(43)</b>	(489)
<b>Total comprehensive income for the year</b>	<b>13,282</b>	13,236

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity

<i>In thousands of US dollars</i>	Attributable to equity holders of the Company			
	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance at January 1, 2014	37,325	1,735	42,080	81,140
<b>Total comprehensive income for the year</b>				
Profit for the year	-	-	13,725	13,725
<b>Other comprehensive income</b>				
Defined benefit plan actuarial gains net of tax of \$168	-	-	(489)	(489)
Total comprehensive income for the year	-	-	13,236	13,236
<b>Contributions by and distributions to owners</b>				
Stock options expensed	-	503	-	503
Share options exercised	459	(1,057)	-	(598)
Share options forfeited	-	(107)	-	(107)
Dividends to equity holders	-	-	(4,139)	(4,139)
Total contributions by and distributions to owners	459	(661)	(4,139)	(4,341)
Balance at December 31, 2014	37,784	1,074	51,177	90,035

<i>In thousands of US dollars</i>	Attributable to equity holders of the Company			
	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance at January 1, 2015	37,784	1,074	51,177	90,035
<b>Total comprehensive income for the year</b>				
Profit for the year	-	-	13,325	13,325
<b>Other comprehensive income</b>				
Defined benefit plan actuarial gains net of tax of \$14	-	-	(43)	(43)
Total comprehensive income for the year	-	-	13,282	13,282
<b>Contributions by and distributions to owners</b>				
Stock options expensed	-	716	-	716
Share options exercised	(103)	(69)	-	(172)
Share options forfeited	-	(30)	-	(30)
Dividends to equity holders	-	-	(4,297)	(4,297)
Total contributions by and distributions to owners	(103)	617	(4,297)	(3,783)
Balance at December 31, 2015	37,681	1,691	60,162	99,534

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

## Consolidated Statement of Cash Flows

<i>For the year ended December 31</i>			
<i>In thousands of US dollars</i>	<i>Note</i>	<b>December 31, 2015</b>	December 31, 2014
<b>Cash flows from operating activities</b>			
Profit for the year		13,325	13,725
<b>Adjustments for:</b>			
Depreciation	7	6,753	6,440
Amortization of intangible assets	8	2,827	2,165
Loss on disposal of property, plant and equipment	7	371	21
Gain on pension settlement	18	-	(128)
Finance costs	11,18	2,296	2,278
Interest on other assets		(44)	-
Write-down of other assets		351	-
Change in fair value of interest swaps	10	(3)	76
Unrealized foreign exchange gains		(2,151)	(1,395)
Share-based payment expense	13	1,637	3,032
Share options forfeited		(30)	(107)
Lease incentive		(1)	-
SRED tax credits	16	(702)	(854)
Current income tax expense	15	2,299	3,372
Deferred income tax expense	15	2,477	947
Post-retirement benefits expense	18	(39)	(36)
		<b>29,366</b>	29,536
Change in inventories		7,228	(5,735)
Change in trade and other receivables		1,203	(54)
Change in prepayments		491	(303)
Change in trade and other payables		(8,437)	(2,242)
Change in provisions		(2,131)	-
Net change in non-cash or working capital balances		<b>(1,646)</b>	(8,334)
Interest paid		(1,733)	(2,170)
Income tax paid		(3,026)	(3,487)
<b>Net cash provided by operating activities</b>		<b>22,961</b>	15,545
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		21	-
Acquisition of property, plant and equipment	7	(9,450)	(6,633)
Acquisition of intangible assets	8	(581)	(199)
Acquisition of other investments	9	-	(582)
Share purchase loans		-	(1,776)
Acquisition of subsidiary (net of cash acquired of \$nil)	4	(36,573)	-
<b>Net cash used in investing activities</b>		<b>(46,583)</b>	(9,190)
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(12,037)	(5,413)
Proceeds from long term borrowings		38,893	-
Tax paid on exercise of share options		(171)	(599)
Dividends paid	13	(4,217)	(4,193)
<b>Net cash provided by (used in) financing activities</b>		<b>22,468</b>	(10,205)
<b>Net decrease in cash and cash equivalents</b>		<b>(1,154)</b>	(3,850)
Cash and cash equivalents at January 1		13,139	16,904
Effect of exchange rate fluctuations on cash held		(24)	85
<b>Cash and cash equivalents at December 31</b>		<b>11,961</b>	13,139

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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

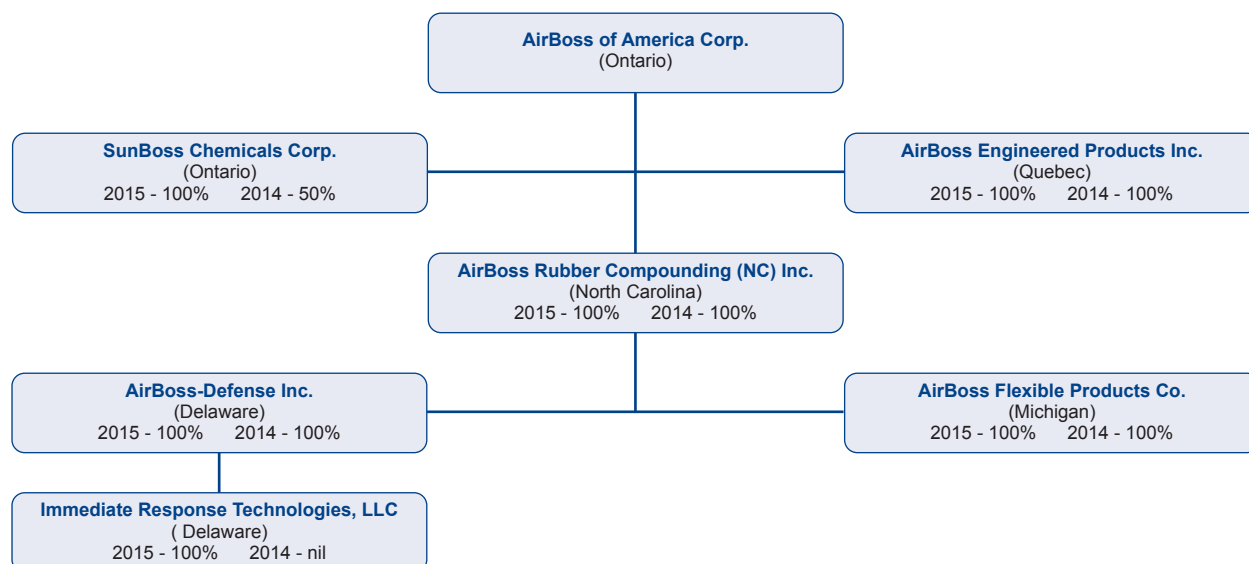
#### NOTE 1 REPORTING ENTITY

AirBoss of America Corp. (“the Company”) is a public company listed on the Toronto Stock Exchange, incorporated and domiciled in Ontario. The address of the Company’s registered office is 16441 Yonge Street, Newmarket, Ontario, Canada. The consolidated financial statements of the Company as at and for the year ended December 31, 2015 comprise the Company and its subsidiaries (together referred to as the “Group” and separately as “Group entities”). The Group has operations in Canada and the US and is involved primarily in the manufacture of high quality rubber-based products for resource, military, automotive and industrial markets (see Note 19).

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.



AirBoss operates in three business segments, Rubber Compounding, Engineered Products and Automotive, through seven significant legal entities including the parent AirBoss of America Corp., and the following six wholly-owned operating subsidiaries: AirBoss Rubber Compounding (NC) Inc., SunBoss Chemicals Corp., AirBoss Produits d’Ingenierie Inc./AirBoss Engineered Products Inc. (“AirBoss Engineered Products”), AirBoss-Defense Inc., AirBoss Flexible Products Co. and Immediate Response Technologies, LLC.

AirBoss, through its AirBoss Rubber Compounding division and its wholly-owned subsidiaries AirBoss Rubber Compounding (NC) Inc. and SunBoss Chemicals Corp. (“SunBoss”) (collectively, “ARC”), is engaged in custom rubber compounding, supplying mixed rubber for use in mining, transportation, industrial rubber products, military, automotive, conveyor belting, and other products, primarily in North America. SunBoss sources chemicals used on the rubber compounding business for both internal consumption and external sales to customers who mix compounds internally.

AirBoss Engineered Products, AirBoss-Defense Inc. and Immediate Response Technologies, LLC (“IRT”) (together called “AEP”) are world leaders in the development, manufacture and sale of personal protection and safety products for Chemical, Biological, Radiological and Nuclear (“CBRN”) hazards, as well as communicable diseases and respiratory threats for the individual, First Responder, Medical, Military, Law Enforcement, Fire and Industrial communities. AEP also produces calendered and extruded rubber products used by its customers in the manufacture of industrial products and recreational vehicles. AirBoss-Defense Inc., previously located in Vermont, USA, was established to produce certain injection mold defense products. In November 2015, these operations were transferred to our plant in Acton-Vale, Quebec.

AirBoss Flexible Products Co., is a leading supplier of innovative and cost-effective anti-vibration solutions primarily to the North American automotive market. Our Automotive division designs, engineers and manufactures rubber and synthetic rubber products, such as bushings, dampeners, boots and isolators that are used to eliminate or control undesired vibration and noise, to enhance interior comfort, quality, increase the durability of a vehicle, and improve the overall experience of a vehicle’s passengers.

### **NOTE 2 BASIS OF PREPARATION**

#### **(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Consolidated financial statements were authorized for issue by the Board of Directors on March 15, 2016.

#### **(b) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- certain property, plant and equipment was re-measured at fair value on the adoption of IFRS
- forward contracts are measured at fair value
- liabilities for cash settled share-based payment arrangements are initially and thereafter measured at fair value
- equity settled share based payment arrangements are measured at fair value at the grant date
- recognition of future income taxes on foreign exchange differences where the currency of the tax basis on non-monetary assets and liabilities differ from the functional currency
- the employee benefit liability is recognized as the net total of the plan assets, at fair value, less the present value of the defined benefit obligation

#### **(c) Functional and presentation currency**

These consolidated financial statements are presented in US dollars ("USD"), which is the Company's functional currency. All financial information presented in US dollars has been rounded to the nearest thousand, except when otherwise indicated.

#### **(d) Use of estimates and judgments**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Significant areas requiring the use of estimates include valuation of accounts receivable, inventory, intangibles, accounting for income taxes, share-based payments, measurement of post-retirement benefits and fair value of assets acquired through business combination. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 4 – business acquisition

Note 5 – trade and other receivables

Note 6 – inventories

Note 8 – intangible assets

Note 15 – income taxes

Note 16 – government assistance

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 8 – key assumptions used in discounted cash flow projections for impairment of intangible assets;

Note 12 – provisions;

Note 13 – capital and other components of equity;

Note 15 – utilization of tax losses;

Note 17 – commitments and contingencies; and

Note 18 – measurement of post-retirement benefits.

**NOTE 3 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. In 2014, the following new interpretation has been applied in preparing these consolidated financial statements.

IFRIC 21 clarifies what is the obligating event that gives rise to the recognition of a liability to pay a levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is applied retrospectively. The adoption of this interpretation did not have a material effect on the Company's financial results.

The following accounting policies have been applied consistently by entities within the group.

**(a) Foreign currency****(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in USD, which is the Group's functional and the Group's presentation currency.

**(ii) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions or valuation where items are re-measured. Monetary assets and liabilities denominated in a currency other than the functional currency are translated to the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities are recognized in profit or loss on the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance cost'. All other foreign exchange gains and losses are presented on a net basis in the income statement within other income (expense).

**(b) Financial instruments****(i) Non-derivative financial assets**

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset, expire or are settled.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: cash and cash equivalents and other assets; trade and other receivables and other assets.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**Trade and other receivables**

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Trade and other receivables comprise trade, other receivables and notes receivable.

**Other assets**

Other assets are financial assets which are comprised of investments, a convertible promissory note and share purchase loans. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, investments are measured at cost less any permanent decline in value. Convertible promissory note and share purchase loans subsequently include accrued interest.

**(ii) Non-derivative financial liabilities**

All financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings; bank overdrafts; trade and other payables.

Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.



### (iii) Share capital

#### Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

### (iv) Derivative financial instruments

The Group holds stand-alone derivative financial instruments to reduce its foreign currency risk exposures.

Embedded derivatives are separated from the host contract and accounted for separately. If the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized immediately in profit or loss.

### (c) Property, plant and equipment

#### (i) Recognition and measurement

Land and buildings comprise mainly manufacturing facilities and offices. Items of property, plant and equipment are measured at historical cost (net of government grants) less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within other income in profit or loss.

#### (ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

#### (iii) Depreciation

Land is not depreciated. For other property, plant and equipment, depreciation is calculated over the depreciable amount, which is the cost of an asset, revalued amount or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of property, plant and equipment, with certain manufacturing equipment being depreciated on a units of production basis since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- buildings 15-40 years
- plant and manufacturing equipment 5-15 years
- vehicles 3-5 years
- furniture, office, lab and computer equipment 3-5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**(d) Intangible assets****(i) Goodwill**

Goodwill that arises upon the acquisition of a business is included in intangible assets. At initial recognition, goodwill is measured as the excess of purchase price over the fair value of identifiable net assets.

In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Canadian Generally Accepted Accounting Principles.

**Subsequent measurement**

Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested annually for impairment. Impairment losses on goodwill are not reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or Groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

**(ii) Customer Relationships**

Customer Relationships that arise upon the acquisition of a business are included in intangible assets. At initial recognition, customer relationships are measured at fair value based on the current customers total sales, estimating an annual attrition rate and future growth based on current market conditions and historical data.

**(iii) Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Investment tax credits and other related government assistance are recorded as a reduction of R&D department costs. Investment tax credits related to capital assets reduce property, plant and equipment accordingly.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use and borrowing costs on qualifying assets. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

**(iv) Other intangible assets**

Other intangible assets, such as software, that are acquired or developed by the Group and have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses. Costs associated with annual licenses and maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when there is an ability to use the software product and it can be demonstrated how the software product will generate probable future economic benefits.

Directly attributable costs that are capitalized as part of the software product include the incremental software development or contracted employee costs. Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

**(v) Subsequent expenditures**

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and intellectual property, are recognized in profit or loss as incurred.

**(vi) Amortization**

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

The estimated useful lives for the current and comparative periods are as follows:

- |                                 |           |
|---------------------------------|-----------|
| • software                      | 5 years   |
| • capitalized development costs | 3-5 years |
| • customer relationships        | 10 years  |

### **(e) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. Impairment charges are recorded against cost of sales, when it is determined the net realizable value is less than cost.

### **(f) Employee benefits**

#### **(i) Defined benefit plans**

The Group provides designated employees with defined post-employment benefits based upon their years of service. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. These benefits are accrued by the Company and remain unfunded unless certain events occur. The Group's net obligation, in respect of defined benefit pension plans, is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets (if any) are deducted. The discount rate is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The Group recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and reports them in retained earnings.

Settlements are approved by the Board of Directors and any difference between the final cash settlement and the Group's net obligation, are recognized at that time as a gain or loss to the current Statement of Income.

#### **(ii) Other long-term employee benefits**

The Group provides certain employees with post retirement life insurance benefits that are unfunded. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries. The Group's net obligation in respect of long-term employee benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. Any actuarial gains and losses are recognized in other comprehensive income and retained earnings in the period in which they arise.

#### **(iii) Defined Contribution Plan**

AirBoss Flexible Products maintains a 401(k) defined contribution plan for all of their employees not covered by collective bargaining agreements. In addition, AirBoss Rubber Compounding (NC) Inc., along with AirBoss-Defense Inc. maintains a 401(k) plan for all their employees.

#### **(iv) Multi-Employer Pension Plan**

The Group 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 the Group chooses to stop participating in the multi-employer plan, the Group may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

#### **(v) Bonus Plan**

The Group recognizes a liability for unpaid bonuses and an expense for all bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders, after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### **(g) Provisions**

Provisions for environmental restoration and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

**(h) Revenue****(i) Goods Sold**

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when: persuasive evidence that the significant risks and rewards of ownership have been transferred to the buyer; recovery of the consideration is probable; the associated costs and possible return of goods can be estimated reliably; there is no continuing management involvement with the goods; and the amount of revenue can be measured reliably. Revenues are recorded based on the price specified in the price quotes or contracts. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards may be upon shipment to, or receipt by, customers depending on the individual terms of the contract of sale. Generally, the buyer has no right of return except if the product did not comply with the agreed upon specifications.

**(ii) Services**

Revenue from services rendered is recognized in profit or loss on provision of the services.

**(iii) Presentation**

Revenue and cost of sales are presented on a gross basis in the consolidated statements of income when the Group is acting as principal and is subject to the significant risks and rewards of the transaction. Where the Group receives consignment inventory for processing, the tolling charges are recorded as revenue.

**(i) Government grants**

An unconditional government grant is recognized as a reduction of the cost of the asset acquired or expenses incurred when the grant becomes receivable.

**(j) Lease payments**

Payments made under operating leases are recognized in profit or loss, on a straight-line basis, over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

**(k) Finance income and finance costs**

Finance income comprises interest income on funds invested and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized, as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets and the financing component of employee benefits. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

**(l) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years. Current tax also includes any tax arising from dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

### (m) Segment reporting

Segment results that are reported to the Group's CEO (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Operating segments are aggregated if they are similar and demonstrate similar economic characteristics. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and tax assets and liabilities.

### (n) Share-based payments

At the Company's Annual General and Special meeting of Shareholders held on May 14, 2015, shareholders approved the Company's 2015 Omnibus Incentive Plan ("Omnibus Plan"). The Omnibus Plan is an equity settled, share-based compensation plan, under which the entity receives services from directors, employees and certain advisors as consideration for equity instruments (options) of the Group. The fair value of the services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. When the options are exercised, the Company issues new shares. The proceeds received, together with the amount recorded in contributed surplus, are credited to share capital when the options are exercised. The beneficiary can elect to convert the fair value of the vested options to the market value of shares on a cash-less basis on the exercise date.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Under the Omnibus Plan, the Company issued restricted stock units and stock options pursuant to the terms and conditions of the Omnibus Plan and the related award agreements entered into thereunder.

The Group also has a cash-settled stock appreciation rights plan ("SAR"), a form of stock-based compensation. 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 employee in respect of SAR. The liability is re-measured at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognized as a compensation expense in the statement of income.

### (o) New standards and interpretations not yet adopted.

In July 2014 the IASB finalized IFRS 9, "Financial Instruments" ("IFRS 9"). The new standard includes revised guidance on the classification and measurement of financial assets and liabilities, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"). The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

On December 18, 2014 the IASB issued amendments to IAS 1 "Presentation of Financial Statements" ("IAS 1") as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). These amendments will not require any significant change to current practice, but should facilitate improved financial statements disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

On January 13, 2016 the IASB issued IFRS 16 "Leases". This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. These amendments will not require any significant change to current practice, but should facilitate improved financial statements disclosures. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases*. The Company is currently assessing the impact of these amendments on its consolidated financial statements.

**NOTE 4 ACQUISITION OF IMMEDIATE RESPONSE TECHNOLOGIES, LLC**

On July 24, 2015, the Company, through its wholly-owned subsidiary AirBoss-Defense Inc., acquired all of the membership interests of Immediate Response Technologies, LLC ("IRT"), a privately-owned U.S. company that is a leading provider of personal protection and safety products for CBRN hazards, as well as communicable diseases and respiratory threats for the individual, First Responder, Medical, Military, Law Enforcement, Fire and Industrial communities.

The acquisition was made for initial cash consideration of \$36,770, subject to working capital adjustments, with the potential for additional earn-out payments in a combination of cash and equity having a maximum aggregate value of up to approximately \$25,000, subject to the achievement of specific performance objectives over the 60 month period following the close of the transaction. The acquisition consideration and related expenses were financed with cash on hand and debt, with the Company utilizing a new \$38,000 term loan under its existing debt facilities.

The acquisition of IRT by the Company is accounted for using the acquisition method of accounting, whereby, IRT's assets and liabilities are revalued to their fair value and any excess of the purchase price is recognized as goodwill. AirBoss' assets and liabilities are not revalued. Purchase price allocation is not yet completed.

In the period from July to December 31, 2015, IRT contributed net sales of \$8,684 and incurred a loss of \$7.

If the acquisition had occurred on January 1, 2015, management estimates that consolidated net sales would have been \$316,344 and profit for the year of \$14,380. In determining these amounts, management had assumed that the fair value of the adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2015. Profit would be adjusted for depreciation on the fair value of the capital assets acquired, amortization of customer relationships, amortization of fair value increment of inventory, interest on new long-term debt, elimination of deferred financing cost, elimination of management and board fees, elimination of intercompany sales at preacquisition period, and related tax effects. IRT is classified as part of AirBoss Engineered Products business segment.

**Acquisition-related costs**

The Company incurred acquisition-related costs of \$1,304 on legal fees and due diligence costs. These costs have been included in "general and administrative expenses".

**Identifiable assets acquired and liabilities assumed**

The following table summarizes the recognized amounts of identifiable assets acquired and liabilities assumed at the acquisition date. Provisional amounts have been recognized as the measurement period for the acquisition remains open until the valuation of identifiable assets and liabilities is confirmed.

**Purchase price allocation**

The purchase price has been allocated on the basis of management's preliminary estimates of fair values as follows:

(US in thousands)

<b>Consideration:</b>	
Cash	36,770
Adjustments to working capital	(197)
<b>Total Consideration:</b>	<b>36,573</b>
<b>Preliminary fair value of assets acquired:</b>	
Accounts receivable	1,012
Inventory	3,778
Prepaid expenses	953
Property and equipment	4,500
Customer relationships	12,250
<b>Total Assets</b>	<b>22,493</b>
<b>Preliminary value of liabilities assumed:</b>	
Accounts payable	(1,693)
Provisions	(278)
<b>Total liabilities</b>	<b>(1,971)</b>
<b>Net assets acquired</b>	<b>20,522</b>
Excess of purchase price over fair value of identifiable assets acquired	16,051

# AirBoss of America Corp.

## Notes to CFS (cont'd)

On July 24, 2015, the Company's best estimate of the acquired accounts receivable not expected to be collected was \$51.

### Goodwill

Goodwill arising from the acquisition has been recognized as follows:

*In thousands of US dollars*

Consideration transferred	36,573
Fair value of net identifiable assets	(20,522)
<b>Goodwill</b>	<b>16,051</b>

The goodwill is attributable mainly to the skills and technical talent of IRT's work force, proprietary technology and the synergies expected to be achieved from integrating IRT into the Company's existing business. Elected values determined tax deductibility of goodwill.

### NOTE 5 TRADE AND OTHER RECEIVABLES

#### December 31

*In thousands of US dollars*

	2015	2014
Trade receivables	41,181	41,860
Less: allowance for doubtful accounts	(734)	(254)
	<b>40,447</b>	41,606
Other receivables	1,701	940
	<b>42,148</b>	42,546

### Impairment losses

The aging of trade receivables at the reporting date was:

December 31 <i>In thousands of US dollars</i>	2015		2014	
	Gross	Impairment	Gross	Impairment
Within terms	33,055	-	34,601	-
Past due 0-30 days	5,576	-	4,687	-
Past due 31-120 days	2,550	(734)	2,572	(254)
	<b>41,181</b>	<b>(734)</b>	41,860	(254)

The continuity of the allowance for doubtful accounts was:

	2015	2014
<i>In thousands of US dollars</i>		
Balance at January 1	(254)	(181)
Impairment loss recognized	(876)	(337)
Collected	52	22
Revised estimate	344	242
Balance at December 31	<b>(734)</b>	(254)

### NOTE 6 INVENTORIES

#### December 31

*In thousands of US dollars*

	2015	2014
Raw materials and consumables	23,625	24,701
Work in progress	2,340	2,705
Finished goods	8,373	8,297
Inventory in transit	2,120	3,968
Other inventory	879	1,065
	<b>37,337</b>	40,736
Provisions	(1,132)	(1,081)
	<b>36,205</b>	39,655

An inventory charge of \$51 (2014: recovery of \$23) was included in cost of sales.

**NOTE 7 PROPERTY, PLANT AND EQUIPMENT**

<i>In thousands of US dollars</i>	Land and buildings	Plant and equipment	Furniture and equipment	Under construction	Total
<b>Cost or deemed cost</b>					
Balance at January 1, 2014	14,998	56,732	1,599	1,064	74,393
Additions	48	131	4	6,450	6,633
Disposals	-	(46)	-	-	(46)
Transfers	171	2,051	50	(2,698)	(426)
Balance at December 31, 2014	15,217	58,868	1,653	4,816	80,554
Additions	182	1,542	35	8,147	9,906
Disposals	(539)	(1,742)	(19)	-	(2,300)
Transfers	1,624	6,956	70	(9,106)	(456)
Business Acquisition (Note 4)	85	4,286	82	-	4,453
Balance at December 31, 2015	16,569	69,910	1,821	3,857	92,157
<b>Accumulated depreciation</b>					
Balance at January 1, 2014	3,022	15,203	750	-	18,975
Depreciation for the period	848	5,334	258	-	6,440
Disposals	-	(25)	-	-	(25)
Transfers	(95)	(60)	(15)	-	(170)
Balance at December 31, 2014	3,775	20,452	993	-	25,220
Depreciation for the period	883	5,638	232	-	6,753
Disposals	(197)	(1,700)	(11)	-	(1,908)
Balance at December 31, 2015	4,461	24,390	1,214	-	30,065

Included in plant and equipment is spare parts inventory of \$nil (2014: \$41).

**Carrying amounts**

<i>In thousands of US dollars</i>	Land and buildings	Plant and equipment	Furniture and equipment	Under construction	Total
At December 31, 2014	11,442	38,416	660	4,816	55,334
At December 31, 2015	12,108	45,520	607	3,857	62,092

Depreciation expense of \$6,396 (2014: \$6,014) was charged to costs of sales, \$210 (2014: \$267) was charged to general and administrative expense and \$147 (2014: \$159) was charged to research and development expenses. Rental expense for equipment under operating lease of \$314 (2014: \$379) was included in the income statement.

Government assistance grants relating to capital assets were \$213 in 2015 (2014: \$39); land and buildings and property, plant and equipment were adjusted accordingly. Loss on disposal of \$392, of which \$15 is included in depreciation expense and charged to general and administrative expense and \$377 is included in other income (expense) as it relates to restructuring costs.



**NOTE 8 INTANGIBLE ASSETS**

<i>In thousands of US dollars</i>	Customer Relationships	Goodwill	Software	Total
<b>Cost</b>				
Balance at January 1, 2014	16,000	16,898	2,827	35,725
Purchases	-	-	199	199
Transfers	-	-	387	387
Balance at December 31, 2014	16,000	16,898	3,413	36,311
Purchases	-	-	125	125
Disposals	-	-	(36)	(36)
Transfers	-	-	456	456
Business Acquisition (Note 4)	12,250	16,051	47	28,348
Balance at December 31, 2015	28,250	32,949	4,005	65,204
<b>Amortization and impairment losses</b>				
Balance at January 1, 2014	324	-	1,414	1,738
Amortization for the period	1,600	-	565	2,165
Transfers	-	-	131	131
Balance at December 31, 2014	1,924	-	2,110	4,034
Amortization for the period	2,213	-	614	2,827
Disposals	-	-	(36)	(36)
Balance at December 31, 2015	4,137	-	2,688	6,825
<b>Carrying amounts</b>				
At December 31, 2014	14,076	16,898	1,303	32,277
At December 31, 2015	24,113	32,949	1,317	58,379

Amortization expense of \$2,827 (2014: \$2,165) was charged to general and administrative expense. Flexible's remaining amortization for customer relationships is 7.8 years and IRT's remaining amortization for customer relationships is 9.5 years. The aggregate carrying amounts of goodwill allocated to each unit are as follows:

**Goodwill****December 31**

<i>In thousands of US dollars</i>	2015	2014
AEP	22,884	6,833
Automotive	10,065	10,065
	<b>32,949</b>	16,898

**Indefinite life intangible assets - customer relationships****December 31**

<i>In thousands of US dollars</i>	2015	2014
AEP	11,637	-
Automotive	12,476	14,076
	<b>24,113</b>	14,076

**Impairment**

Goodwill is allocated to those Cash Generating Units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill. The Company's goodwill is allocated to AirBoss Engineered Products and Automotive. As at December 31, 2015 and December 31, 2014, there was no goodwill impairment.

**Recoverable amount**

Recoverable amount was based on value in use. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit.

**Key assumptions used in value-in-use calculations**

The calculations of value in use for the Cash Generating Units are most sensitive to the following assumptions:

- Discount rate used 8.5%
- Growth rate of 2-5% for operating expenses used in the budget
- Projected sales used to extrapolate cash flows beyond the budget date

Cash flows were projected based on past experience, actual operating results and the business plan for a 1 year period. Cash flows for a further 5 year period were extrapolated using projected sales and a growth rate of 2-5% for operating expenses, which does not exceed the long-term average growth rate for the industry.

Revenue and margins in the business plan were budgeted based on discussions with customers, contracts on-hand and industry information, past experience and trends, as well as initiatives. The anticipated annual revenue has been based on conservative growth levels, (net of the inflationary effect of rising raw material prices).

The values assigned to the key assumptions represent management's assessment of future trends in the rubber, AEP and automotive industries and are based on both external sources and internal sources (historical data).

## Notes to CFS (cont'd)

**NOTE 9 OTHER ASSETS**

<i>In thousands of US dollars</i>	Convertible promissory Note	Share purchase loan	10% equity investment	Other	Total
Balance at January 1, 2014	-	-	313	155	468
Convertible promissory note	550	-	-	-	550
Share purchase loans	-	1,774	-	-	1,774
Accrued interest	32	2	-	-	34
Effect of movements in exchange rates	-	(50)	-	(9)	(59)
Balance at December 31, 2014	582	1,726	313	146	2,767
Accrued interest	44	16	-	-	60
Interest paid	-	(16)	-	-	(16)
Allowance for accrued interest	(76)	-	-	-	(76)
Write-down to fair value of convertible promissory note	(275)	-	-	-	(275)
Effect of movements in exchange rates	-	(279)	-	(16)	(295)
Subtotal at December 31, 2015	275	1,447	313	130	2,165
Less current	(275)	-	-	-	(275)
	-	1,447	313	130	1,890

During the fourth quarter of 2015, the Company provided for the interest receivable on the convertible promissory note and wrote-down the other asset to its fair value.

**NOTE 10 DERIVATIVES NOT MEETING HEDGE ACCOUNTING CRITERIA****Foreign exchange hedge**

There were no forward contracts outstanding at December 31, 2015. At December 31, 2014, the Company had contracts to sell US \$10,460 in 2015 for CAD \$12,000. The fair value of these contracts, representing a loss of \$116 was recorded in 2014 on the statement of financial position included in trade and other payables, including derivatives and changes in fair value recorded on the statement of income as expense.

**Interest rate swap**

During 2014, the Company entered into an interest rate swap agreement for a notional amount of \$22.5 million. 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 0.98%. The swap agreement matures on February 27, 2017.

During 2015, the net interest expense of the swap agreement was \$180 and \$196 was paid; (2014: \$159 and \$136 was paid).

For the year ended December 31, 2015, the fair value of this agreement, representing a loss of \$73, (2014: loss of \$76) is recorded on the statement of financial position included in loans and borrowings and changes in fair value are recorded on the statement of income as finance costs.

The Company has entered into this interest rate swap agreement in order to fix the interest rate on a portion of its term loan and it does not intend to hold for trading or speculation purposes.

**NOTE 11 LOANS AND BORROWINGS****December 31***In thousands of US dollars*

	2015	2014
<b>Non-current</b>		
Term debt	74,140	39,735
Less: deferred financing	(1,282)	(450)
	72,858	39,285
<b>Current</b>		
Term debt	4,064	11,663
	4,064	11,663

**December 31***In thousands of US dollars*

	2015	2014
CAD \$7,900 term debt, bearing interest at 6.39%, seven year term, amortized over 15 years, with interest payable monthly and no principal payments required until November 15, 2011, balance repayable July 15, 2015.	-	6,800
CAD \$5,000 term debt, bearing interest at 5.25%, five year term, amortized over 20 years, with principal and interest payable quarterly and the balance repayable October 18, 2018.	3,131	4,023
US \$45,000 term debt, bearing interest at LIBOR plus applicable margins from 150 to 250 basis points depending on certain covenants, five year term, amortized by specific installments of principal plus interest payable quarterly and the balance repayable October 18, 2018.	-	40,575
US \$75,000 term debt, bearing interest at US Base Rate plus applicable margins from 75 to 175 basis points depending on covenants, five year term, amortized by specific installments of principal plus interest payable quarterly and the balance repayable December 10, 2020. Subsequent to year end, the loan was converted to LIBOR plus applicable margins from 175 to 275 basis points depending on covenants.	75,073	-
Subtotal	78,204	51,398
Less principal due within one year	(4,064)	(11,663)
	74,140	39,735

## Notes to CFS (cont'd)

During the third quarter of 2015, the Company borrowed an additional \$38,000 pursuant to a new term loan under its existing debt facilities to finance the acquisition of IRT (Note 4). The \$38,000 term loan bore interest at LIBOR plus applicable margins from 150 to 250 basis points depending on the leverage ratio, with interest and principal payments due quarterly, and maturing October 18, 2018.

During the fourth quarter of 2015, the Company amended its senior secured credit facilities to, among other things, increase the availability to approximately US\$138,000, extend the maturity of the facilities and increase flexibility under the governing credit agreement to support future growth opportunities.

The aggregate availability under the Company's current credit facilities is now approximately \$138,000, comprised of an increased \$60,000 revolving facility, a term loan of \$75,000 (consolidating the two prior outstanding acquisition financing loans with interest at LIBOR plus applicable margins from 175 to 275 basis points, depending on covenants), a term loan of C\$4,300 (unchanged from the prior facility) and an accordion feature of up to an additional \$50,000 of availability, upon the satisfaction of customary conditions for such features. The maturity dates of the revolving credit facility and the US\$ term loan were extended from October 2018 to December 2020, while the maturity date of the C\$ term loan remains at October 2018.

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

In 2015, deferred financing fees of \$247 relating to the \$38,000 term debt loan to acquire IRT were incurred.

Deferred financing fees of \$958, in regards to the amended agreement (dated December 10, 2015) were incurred. Deferred financing fees of \$282, which includes a write-down of \$148 in regards to the original credit agreement (dated October 2013) were expensed (2014: \$123).

The fees are being amortized over 5 years and \$15 (2014: \$nil) has been amortized and is included in finance costs.

Interest expense in 2015 on the term loans was \$1,575 (2014: \$1,710).

Principal repayments on the term loan are as follows:

<i>In thousands of US dollars</i>	Total	2016	2017	2018	2019	2020
Term loan	78,204	4,064	3,991	8,274	5,625	56,250

In 2015, under the Company's current credit facilities, the revolving facility consists of \$30,000 US Revolving Credit facility and a \$30,000USD equivalent Canadian Revolving Credit Facility. \$60,000 of this facility is unused as at December 31, 2015.

In 2014, the operating line consisted of a \$25,000 senior secured multi-currency revolver and a \$15,000 senior secured revolving credit facility. \$40,000 of this facility was unused at December 31, 2014.

All obligations under the current credit facility and related loan documentation are secured by a first charge against all of the Group's present and after acquired property in favour of the lenders. Interest expense in 2015 on the demand loan was \$56 (2014: \$157).

At December 31, 2015 the Company is not in default, nor has it breached any terms of the credit agreement relating to its current credit facilities.

The contractual re-pricing dates at the end of the reporting period are as follows:

<b>December 31</b> <i>In thousands of US dollars</i>	2015	2014
Less than 1 year	4,064	11,663
1 to 5 years	72,858	39,285
	<b>76,922</b>	50,948

The carrying amount and fair value of the borrowings are as follows:

<i>In thousands of US dollars</i>	Carrying amount		Fair value	
	2015	2014	2015	2014
Term debt	76,922	50,948	77,985	51,540

The fair value of current borrowings approximates the carrying amount, as the impact of discounting at current market rates will not have a material impact. The fair values are based on cash-flows discounted using a rate based on the borrowing rate of 4.04% (2014: 4.46%) for CAD fixed rate term loan and 4.75% (2014: LIBOR loan 1.67%) for the new US term loan.

**NOTE 12 PROVISIONS**

<i>In thousands of US dollars</i>	Site restoration	Stock appreciation rights	Restricted stock units	Lease incentives	Total
Balance at January 1, 2014	94	804	-	-	898
Provisions accrued during the year	-	2,318	211	-	2,529
Foreign exchange	(8)	(166)	(17)	-	(191)
Balance at December 31, 2014	86	2,956	194	-	3,236
Acquisition (Note 4)	-	-	-	278	278
Provisions accrued during the year	-	4,577	921	-	5,498
Payments during the year	-	(6,709)	-	-	(6,709)
Foreign exchange	(14)	(824)	(104)	-	(942)
Subtotal	72	-	1,011	278	1,361
Less principal due within one year	-	-	-	(13)	(13)
Balance at December 31, 2015	72	-	1,011	265	1,348

No legal provisions are recognized at December 31, 2015 and 2014.

**Stock Appreciation Rights Plan**

During 2011, the Company established a stock appreciation rights plan ("SAR Plan") to reward select directors and employees and issued 609,000 stock appreciation rights thereunder. Since 2012, no stock appreciation rights were granted to named executive officers ("NEOs"), directors or advisors to the directors. The stock appreciation rights granted in 2011 vested on September 30, 2015 (539,000 rights) and November 13, 2015 (70,000 rights). During the fourth quarter of 2015, following the vesting date, cash payments were made to rights holders, net of tax withholdings, equal to the positive difference between the market price of the Company's common shares (defined under the SAR Plan as the trailing 10-day volume-weighted average price of the shares on the TSX) on the vesting date and the market price on the date of the grant.

As at December 31, 2014, 609,000 rights were outstanding with a grant date market price ranging between CAD \$5.16 and CAD \$5.25. On September 30, 2015, 539,000 stock appreciation rights vested with a vesting date market price of CAD \$20.2887, resulting in a cash payment of \$5,996. On November 13, 2015, 70,000 stock appreciation rights vested with a vesting date market price of CAD \$18.7036, resulting in a cash payment of \$712.

The Company recognized as employee costs \$4,577 (2014: \$2,318), relating to the SAR Plan, as a result of the change in share price.

**Equity Compensation Plan**

The Company has issued certain executives with an aggregate of 238,500 restricted stock units pursuant to the terms and conditions of the Omnibus Plan. During 2015, 174,500 restricted stock units were issued. The restricted stock units vest three years following the grant date and have no performance requirements. At December 31, 2015 the Company has recognized as employee costs \$921 (2014: \$211) related to the plan.

**NOTE 13 CAPITAL AND OTHER COMPONENTS OF EQUITY****Share Capital and Contributed Surplus**

**Share Capital: Authorized** - Unlimited number of Class A shares without par value designated as common shares.

Unlimited number of Class B preference shares without par value and issuable in series subject to the filing or articles of amendment. The directors may fix, from time to time before such issue, the number of shares that is to comprise each series and the designations, rights, privileges, restrictions and conditions attaching to each series.

Issued share capital is as follows:

<i>In thousands of shares</i>	2015	2014
January 1	22,999	22,748
Exercise of share options	23	251
December 31	23,022	22,999

# AirBoss of America Corp.

## Notes to CFS (cont'd)

### Issuance of common shares

During 2015 43,000 options (2014: 650,750) were exercised.

### 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.

The contributed surplus is as follows:

<i>In thousands of US dollars</i>	2015	2014
Balance at January 1	1,074	1,735
Stock option expense	716	503
Exercise of stock options	(69)	(1,057)
Recovery of forfeited options	(30)	(107)
Balance at December 31	1,691	1,074

#### Stock Options

The Company has reserved 2,299,876 (2014: 2,299,876) shares for its Omnibus plan of which half is reserved for share options. The term of an option shall not exceed 10 years from the date of grant. Options granted to directors and officers of the Company, which were outstanding at December 31, 2015, are as follows:

Range of exercise price (\$CAD)	Options outstanding Quantity	Weighted average contract life	Options exercisable Quantity
6.35	570,000	2.58	285,000
7.19	50,000	.25	50,000
7.77	50,000	2.88	25,000
12.05	240,000	4.00	60,000
15.40	70,000	4.25	-
17.86	15,000	5.00	-
	995,000		420,000

#### Options granted and outstanding:

A summary of the status of the Company's stock option plan as of December 31, 2015 and 2014 and changes during the years then ended, is presented below:

	2015		2014	
	Quantity	Weighted average exercise price (\$CAD)	Quantity	Weighted average exercise price (\$CAD)
Outstanding beginning of year	978,000	7.82	1,482,500	5.86
Granted	85,000	15.83	240,000	12.05
Exercised	(43,000)	5.27	(650,750)	5.13
Forfeited	(25,000)	6.35	(93,750)	6.36
Outstanding end of year	995,000	8.65	978,000	7.82

During 2015, 43,000 options (2014: 650,750) were exercised on a cash-less basis for 23,090 shares (2014: 250,644).

## 2015

### Notes to CFS (cont'd)

#### Inputs for measurement of grant date fair values

The grant date fair value 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 share options and assumptions

<i>In Canadian dollars</i>	December 2015	March 2015	December 2014
Fair value at grant date	\$4.70	\$4.12	\$3.38
Share price at grant date	17.53	15.46	12.22
Exercise price	17.86	15.40	12.05
Expected volatility (weighted average volatility)	35.0%	34.6%	34.50%
Option life (expected weighted average life)	5 years	5 years	5 years
Expected dividends	1.37%	1.55%	1.64%
Risk-free interest rate (based on government bonds)	0.74%	0.73%	1.34%

The stock options issued vest as follows:

	Quantity
Vested at December 31, 2015	420,000
2016	236,250
2017	236,250
2018	81,250
2019	21,250
	995,000

#### Stock option expense

During the year, the Company recognized as employee costs \$686 (2014: \$396) relating to option grants in general and administrative expenses of the statement of income.

#### Dividends

Dividends on common shares were paid to shareholders of record quarterly in 2015 and in 2014 as follows:

Shareholder of record at:	2015		2014	
	\$CAD/share	Date Paid	\$CAD/share	Date Paid
March 31	0.06	April 16, 2015	0.05	April 17, 2014
June 30	0.06	July 16, 2015	0.05	July 17, 2014
September 30	0.06	October 15, 2015	0.05	October 16, 2014
December 31	0.06	January 14, 2016	0.05	January 15, 2015
	0.24		0.20	

The dividend payable at December 31, 2015 was \$998 (2014: \$991).

**NOTE 14 EARNINGS PER SHARE**

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

<b>December 31</b> <i>In thousands of US dollars except per share amounts</i>	<b>2015</b>	2014
Numerator for basic and diluted earnings per share:		
Net income	<b>13,325</b>	13,725
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	<b>23,019</b>	22,860
Dilution effect of stock options	<b>526</b>	75
Diluted weighted average number of shares outstanding	<b>23,545</b>	22,935
Net income per share:		
Basic	<b>0.58</b>	0.60
Diluted	<b>0.57</b>	0.60

At December 31, 2015, nil options (2014: 240,000) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

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**

The provision for income taxes differs from the amount computed by applying the Canadian statutory income tax rate to income before income taxes for the following reasons:

<b>December 31</b> <i>In thousands of US dollars</i>	<b>2015</b>	2014
Combined federal and provincial statutory income tax	<b>4,765</b>	4,898
Foreign tax differential	<b>607</b>	512
Effect of permanent differences	<b>(582)</b>	(433)
Difference arising on filing and assessments	<b>42</b>	(793)
Other	<b>(56)</b>	135
Total expense	<b>4,776</b>	4,319
The components of the provision for income taxes are as follows:		
Current	<b>2,299</b>	3,372
Deferred	<b>2,477</b>	947
Total	<b>4,776</b>	4,319

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows:

<b>December 31</b> <i>In thousands of US dollars</i>	<b>2015</b>	2014
Deferred income tax assets:		
Non-capital income tax loss carry-forwards	<b>72</b>	1,487
Deferred income tax deductions relating to long-term liabilities	<b>423</b>	482
Provisions	<b>-</b>	412
Equity Compensation	<b>471</b>	792
Financing fees	<b>71</b>	379
Alternative minimum tax	<b>97</b>	97
Capital assets	<b>774</b>	20
Other	<b>59</b>	59
	<b>1,967</b>	3,728
Deferred income tax liabilities:		
Research and development expenses deducted for accounting in excess of tax purposes	<b>(59)</b>	(87)
Deferred income tax deductions relating to long-term liabilities	<b>(32)</b>	-
Capital assets	<b>(8,675)</b>	(8,012)
	<b>(8,766)</b>	(8,099)
Net deferred income tax liabilities	<b>(6,799)</b>	(4,371)

## Notes to CFS (cont'd)

In assessing the valuation of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of deferred taxable income during the period in which the temporary differences are deductible.

Management considers the scheduled reversals of deferred income tax liabilities, the character of the income tax asset and the tax planning strategies in making this assessment. Management would not recognize deferred income tax assets if the more likely than not realization criterion is not met.

The Company has no remaining losses (2014: \$4,700) available to offset deferred income taxes in the US and has recognized a related deferred income tax asset of \$nil (2014: \$1,500).

The aggregate amount of taxable temporary differences associated with investments in subsidiaries, branches and associated and interests in joint ventures, for which no deferred tax liabilities have been recognized, is \$37,000 (2014: \$31,700).

**NOTE 16 GOVERNMENT ASSISTANCE**

During 2015, AEP recognized grants of \$498 (2014: \$1,401) to support certain initiatives which were offset against expenses.

During 2015, Rubber Compounding recognized \$19 (2014: \$35) to support certain initiatives which were offset against expenses.

During 2015 and 2014, Automotive recognized no grants.

Scientific research and investment tax credits of \$489 (2014: \$815) were recognized in 2015; research and development costs were reduced accordingly. In addition, \$213 (2014: \$39) was recognized as a reduction to capital assets in respect of provincial tax credits.

**NOTE 17 COMMITMENTS AND CONTINGENCIES****Commitments**

The Company is committed, under non-cancellable operating lease agreements, to minimum rentals for equipment and premises as follows:

<i>In thousands of US dollars</i>	<b>Equipment</b>	<b>Premises</b>	<b>Total</b>
2016	227	1,770	1,997
2017	202	1,659	1,861
2018	80	1,626	1,706
2019	26	1,360	1,386
2020	8	432	440
Thereafter	-	396	396
<b>Total</b>	<b>543</b>	<b>7,243</b>	<b>7,786</b>

**Litigation**

In 2004, the Company commenced an Action in the Superior Court of Quebec claiming funds due pursuant to the 1999 Agreement of Purchase and Sale, whereby AirBoss acquired the assets of Acton International Inc.

The Company had been informed that an appeal was filed relating to the Judge's decision to award the Company 100% of its claim for environmental costs reimbursement. This appeal was heard in May, 2013 and a unanimous ruling dismissing the claim in its entirety with costs against the defendants was issued. During the second quarter of 2013, the Company reversed the residual amounts owing to the defendants and recorded a recovery of \$389 in other income. As at November 1, 2013, the Defendants are indebted towards the Plaintiffs for an amount of CAD \$443. During 2015, efforts to collect ceased. The Company has not recognized a receivable due to collection uncertainty.



**NOTE 18 POST RETIREMENT BENEFITS**

The Company maintains an unfunded supplementary employment retirement plan for certain executives “executive supplemental plan” and provides post retirement life insurance benefits to eligible retirees “other benefit plan”.

Funding for the executive supplemental plan is triggered on a change of control. The Company maintains an insurance policy to cover the obligation, in event of the executive’s death. When the executive retires, the annual entitlement is funded from operations. This supplemental plan is a non-registered plan, and while there is no requirement to fund the plan, the employees have reached retirement age and may elect to receive a lump sum payment of their benefits under the plan. At December 31, 2015, the weighted average duration of the defined benefit obligation was 13.2 years (2014: 13.5 years).

Risks associated with this benefit plan are similar to those of typical supplemental non-registered defined benefit plans, including interest rate risk, credit risk, longevity risk, etc. There are no significant risks associated with this plan that can be deemed unusual or require special disclosure.

The post-retirement life insurance benefits under “other benefit plan” are for non-unionized and unionized employees of AirBoss Engineered Products Inc. which are unfunded defined benefit plans covering life insurance.

The methods of accounting, assumptions and frequency of valuations for the other benefit plan are similar to those used for defined benefit pension schemes. This plan is funded through proceeds from an insurance policy. Total estimated contribution to this plan for the next fiscal year is \$38. This plan is unfunded as such there is no plan asset to be disclosed. At December 31, 2015, the weighted average duration of the defined benefit obligation was 12 years (2014: 12 years).

This benefit plan exposes the Company to actuarial risks, such as interest rate risk and longevity risk.

**December 31**

*In thousands of US dollars*

	2015	2014
<b>Statement of Financial Position obligations for:</b>		
Executive Supplemental Plan	1,143	1,251
Other benefit plan	508	628
	<b>1,651</b>	<b>1,879</b>
<b>Income statement charge for:</b>		
Executive Supplemental Plan	43	90
Other benefit plan	23	23
	<b>66</b>	<b>113</b>
<b>Actuarial loss (gain) recognized in the statement of other comprehensive income in the period (before tax):</b>		
Executive Supplemental Plan:		
Actuarial (gain)/loss arising from:		
Experience adjustment	-	188
Financial assumptions	-	305
Demographic assumptions	57	(29)
Other benefit plan:		
Actuarial (gain)/loss arising from:		
Economic assumptions	-	72
Demographic assumptions	-	121
	<b>57</b>	<b>657</b>
<b>Cumulative actuarial loss (gain) recognized in the statement of other comprehensive income (before tax)</b>		
Executive Supplemental Plan	205	262
Other benefit plan	467	467
	<b>672</b>	<b>729</b>

## Notes to CFS (cont'd)

<b>December 31</b> <i>In thousands of US dollars</i>	<b>Executive Supplemental Plan</b>		<b>Other benefit plan</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
Present value of unfunded obligation and Liability in the Statement of Financial Position	<b>1,143</b>	1,251	<b>508</b>	628
Movement in the defined benefit obligation is as follows:				
At January 1	<b>1,251</b>	2,330	<b>628</b>	489
Current service cost	-	-	<b>3</b>	2
Interest cost	<b>43</b>	90	<b>20</b>	21
Employer contribution	-	-	<b>(43)</b>	(36)
Gain on settlement	-	(128)	-	-
Benefit payment	-	(1,363)	-	-
Actuarial gain	<b>57</b>	464	-	193
Exchange differences	<b>(208)</b>	(142)	<b>(100)</b>	(41)
	<b>1,143</b>	1,251	<b>508</b>	628
<b>At December 31</b>				
The amounts recognized in the income statement are as follows:				
Gain on settlement	-	(128)	-	-
Post-retirement benefits expense	-	-	<b>(43)</b>	(36)
Interest cost	<b>43</b>	90	<b>20</b>	21
Exchange differences	<b>(208)</b>	(142)	<b>(100)</b>	(41)
Expense (recovery)	<b>(165)</b>	(180)	<b>(123)</b>	(56)

The current service charge was included in "general and administrative expense" and the interest cost is included in "finance costs" in the income statement.

<b>December 31</b> <i>In thousands of US dollars</i>	<b>Executive Supplemental Plan</b>		<b>Other benefit plan</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
The amount recognized in Other Comprehensive Income				
Opening balance	<b>(262)</b>	202	<b>(467)</b>	(274)
Gain/(loss) for the year on accrued benefit	<b>57</b>	(464)	-	(193)
Closing balance	<b>(205)</b>	(262)	<b>(467)</b>	(467)

<b>December 31</b> <i>In thousands of US dollars</i>	<b>Executive Supplemental Plan</b>		<b>Other benefit plan</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
The principal actuarial valuation assumptions used were as follows:				
Discount rate	<b>3.75%</b>	3.75%	<b>3.75%</b>	3.75%
Mortality	<b>CPM-RPP2014 Priv Table with adjustment factors to account for the level of benefits and with generational projection using improvement scale CPM-B</b>	CPM-RPP2014 Priv Table with adjustment factors to account for the level of benefits and with generational projection using improvement scale CPM-B	<b>CPM mortality table projected with scale B for the private sector</b>	CPM mortality table projected with scale B for the private sector
Retirement age:				
Percentage of members with spouses at retirement	<b>100%</b>	100%	<b>N/A</b>	N/A
EARSL	<b>1.7</b>	2.7	<b>12</b>	12

## Notes to CFS (cont'd)

The sensitivity of the executive supplemental plan to changes in assumptions is set out below. The sensitivity analysis was performed by recalculating the defined benefit obligation and the current service cost at the same valuation date, but only changing the assumption for which the sensitivity was required. This obligation was then used to calculate the difference against the actual amount established as at December 31, 2015. The effect of a variation in a particular assumption on the change in obligation has been calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (e.g. due to correlations between economic assumptions), which may magnify or counteract the sensitivities.

	Supplemental Plan	
<b>Membership data December 31</b>	<b>2015</b>	2014
<i>In thousands of US dollars</i>		
Discount rate 3.50% (instead of 3.75%) (2014: 3.50% (instead of 3.75%))	<b>39</b>	43
Mortality 1-year increase in life expectancy	<b>25</b>	28
Retirement age 100% at age 64 years old (instead of 100% at 65 years old) (2014: 100% at age 64 years old (instead of 100% at 65 years))	<b>65</b>	72

The sensitivity of the "other benefit plan" to changes in assumptions is set out below. The sensitivity analysis was performed by changing each assumption individually. If actual changes occur, some of these assumptions are likely to be correlated and result in a combined impact.

<b>Fiscal Year ending December 31</b>	<b>2015</b>	2014
<b>Effect of an increase of 1%</b> Post-employment benefit obligation	<b>(53)</b>	(66)
<b>Effect of a decrease in 1%</b> Post-employment benefit obligation	<b>67</b>	82
Mortality Sensitivity Analysis		
<b>Effect of an increase of 10% on mortality rates</b> Post-employment benefit obligation	<b>6</b>	11
<b>Effect of a decrease of 10% on mortality rates</b> Post-employment benefit obligation	<b>(7)</b>	(13)

**Defined Contribution Plan**

In 2014, AirBoss Flexible Products Co. ("Flexible") maintained a simplified employee defined contribution pension plan ("SEP") covering substantially all U.S. employees not covered by collective bargaining agreements. Flexible's contributions were discretionary and were not to exceed 5% of the total eligible compensation earned by plan participants during the year. For the period ended December 31, 2014, the expense for this plan was approximately \$273.

Beginning January 1, 2015, this SEP plan was replaced with a 401(k) defined contribution plan sponsored by Flexible for all of their employees not covered by collective bargaining agreements. Total estimated contribution to this plan for the fiscal year is \$300. For the year ended December 31, 2015, the expense for this plan was \$310.

AirBoss Rubber Compounding (NC) Inc., along with AirBoss-Defense Inc., maintain a 401(k) plan for all their employees. Total estimated contributions to this plan for the fiscal year is \$81. For the year ended December 31, 2015, the expense for this plan was \$23 (2014: \$24).

At the time of acquisition, IRT maintained a 401(k) defined contribution plan for its employees. Eligible employees were able to invest pre-tax contributions up to the Internal Revenue Service maximum limits, into selected investment funds maintained and managed by third-party investment companies. IRT did not provide a matching contribution and incurred \$11 in administrative expenses year-to-date ended December 31, 2015. IRT terminated this 401(k) plan on October 29, 2015.

**Multi-Employer Pension Plan**

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

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

During 2015, the Company made contributions of \$284, (2014: \$249) to the multi-employer pension plan. The unfunded vested benefit ratio was 45.89% at December 31, 2015 (2014: 46.38%). The Steel Workers Pension Trust was in a net deficit at December 31, 2015 and the Company's portion of the deficit was unknown. The collective bargaining agreements that require contributions to the multi-employer plan are set to expire December 31, 2017. The collective bargaining agreement requires that the Group contributes \$0.40 for each hour worked by eligible employees during the preceding wage month. Total estimated contribution to this plan for the next fiscal year is \$285.

**NOTE 19 SEGMENTED INFORMATION**

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Rubber Compounding. Includes manufacturing and distribution of rubber compounds and distribution of rubber compounding related chemicals.
- AEP. Includes the manufacture and distribution of personal protection and safety products primarily for CBRN hazards and semi-finished rubber related products.
- Automotive. Includes the manufacture and distribution of anti-vibration and noise dampening automotive parts.
- Corporate. 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 income tax, as included in the internal management reports that are reviewed by the Group'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. 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.

The Company operates primarily within North America with respect to its rubber compound and automotive products and globally with respect to its rubber protective products and has production facilities in Canada and the United States.

For the year ended December 31	Rubber Compounding		AEP		Automotive		Unallocated Corporate Costs		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<i>In thousands of US dollars</i>										
Segment revenue	134,503	164,444	55,316	47,913	142,871	124,931	-	-	332,690	337,288
Inter-segment revenue	(24,028)	(31,092)	(3,753)	(3,045)	-	-	-	-	(27,781)	(34,137)
External revenues	110,475	133,352	51,563	44,868	142,871	124,931	-	-	304,909	303,151
Depreciation and amortization	3,511	3,664	3,124	2,229	2,923	2,708	37	25	9,595	8,626
Finance cost	3,582	2,781	14	13	10	-	(1,310)	(516)	2,296	2,278
Reportable segment profit before income tax	11,255	7,984	(479)	2,994	14,331	10,679	(7,006)	(3,613)	18,101	18,044
Income tax expense	6,269	4,489	(38)	1,007	1,484	491	(2,939)	(1,668)	4,776	4,319
Net income	4,985	3,494	(441)	1,987	12,847	10,188	(4,066)	(1,944)	13,325	13,725
Reportable segment assets	60,199	71,941	73,286	36,873	71,962	68,356	12,292	11,736	217,739	188,906
Reportable segment liabilities	14,695	19,350	7,078	8,875	12,462	11,443	83,970	59,203	118,205	98,871
Capital expenditure	4,576	2,240	2,591	3,063	2,692	1,525	172	4	10,031	6,832

# AirBoss of America Corp.

## Notes to CFS (cont'd)

### Geographical segments

The Rubber Compounding, AEP and Automotive segments operate 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 revenue 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>	December 31, 2015		December 31, 2014	
	Revenues	Non-current assets	Revenues	Non-current assets
Canada	56,213	46,285	71,686	44,235
United States	226,815	76,076	212,272	46,143
Other countries	21,881	-	19,193	-
	<b>304,909</b>	<b>122,361</b>	303,151	90,378

### Major customers

Revenues from one customer represent approximately 8% (2014: 10%) of the Group's total revenues. Five customers represented 32% (2014: 30%) of the Company's total revenues.

### Major Products

<i>In thousands of US dollars</i>	2015	2014
Rubber Compounding		
Tolling	7,519	6,464
Mixing	102,956	126,888
	<b>110,475</b>	133,352
AEP		
Industrial	23,902	26,823
Defense	27,661	18,045
	<b>51,563</b>	44,868
Automotive	<b>142,871</b>	124,931
	<b>304,909</b>	303,151

## NOTE 20 RELATED PARTIES

### Related Party Transactions

Included in the operating lease commitments was a rental agreement for corporate office space between the Company and a company controlled by the Chairman of the Company. The monthly lease rate approximates fair market rental value. During the year, the Company paid rent for the corporate office of \$143 (2014: \$164).

During the year, the Company paid fees for the use of a facility in South Carolina of approximately \$22 (2014: \$21) to a company in which the Chairman is an officer.

In addition, during the year, Flexible paid rent of \$1,115 to a company controlled by an employee of the Company to utilize its office and manufacturing facilities (2014: \$1,050). The lease provides for monthly payments equivalent to an annual rental of \$1,170 and expires in 2019.

## Notes to CFS (cont'd)

## Transactions with key management personnel

Key management includes directors (executive and non-executive), CEO, President, CFO, and divisional Presidents. The compensation expense to key management for employee services is shown below:

**December 31**

*In thousands of US dollars*

	2015	2014
Salaries and other short term benefits	2,211	2,784
Pension/Post-employment benefits	43	(38)
Share-based payment expense	5,402	2,822
	<b>7,656</b>	5,568

The amounts disclosed in this table are the amounts recognized as operating expenses for accounting purposes during the period and do not necessarily represent amounts receivable or received in cash.

Key management and directors own 27.1% of the outstanding common shares.

During 2014, the Company invested \$550 in the form of a convertible promissory note in a company of which the Deputy Chairman of the Company is the chairman. This note can be converted to an equity interest under the following conditions: (1) if the company has completed "qualified financing" raising \$1 million in gross proceeds (excluding the Company's loan); (2) if no "qualified financing" takes place prior to the maturity date, the Company has the option to convert into common stock within 60 days prior to the maturity date of the note. The note bears interest at 8% per annum. Unless converted or prepaid earlier, principal and accrued interest on the note will be due on April 11, 2016.

During the year, interest income on this convertible promissory note of \$44 (2014: \$32) is recorded on the statement of financial position included in other assets and recorded on the statement of income as interest income.

The convertible promissory note is accounted for as a loan receivable with separation of the conversion options that represent embedded derivatives. The loan is initially recognized at its fair value by discounting future cash flows at market interest rate for similar financial debt without the conversion options and is subsequently measured at amortized cost. The embedded derivatives are accounted for at fair value, which is currently considered nominal.

During the fourth quarter of 2015, a full provision was recorded against accrued interest of \$76 and the convertible promissory note was written down to \$275 to recognize the other asset at its fair value.

During 2014, the Company provided share purchase loans of CAD \$1,000 each to both the President and Chief Financial Officer to purchase the Company stock. The promissory notes are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or November 24, 2019. The promissory notes bear interest at 1% annually with full recourse and interest is due and payable semi-annually. 201,000 shares of the Company having a fair value of \$2,537 were pledged as collateral. At December 31, 2015, the promissory notes of \$1,447, including accrued interest of \$1, were included in other assets. During the year, interest of \$16 (2014: \$nil) was paid.

**NOTE 21 FINANCIAL INSTRUMENTS**

## Financial risk management

The Company's activities result in exposure to a variety of financial risks, including risks related to commodity prices, currency fluctuation, interest rates, credit and liquidity.

## Market Risk

## Commodity prices and supplies

The Company's financial performance depends on certain outside sources for raw materials, including carbon black, synthetic and natural rubber, ethylene propylene diene monomer ("EPDM") and silicone used in the production of its products, the price and availability of which are subject to fluctuations from such factors as weather, exchange rates and the price of oil, changes in industry production capacity, changes in world inventory levels and other factors beyond the Company's control.

The Company manages its commodity price and supply risk by matching purchase commitments to its customers' requirements during term of the price quote, ranging from 1 to 3 months and maintains supply sources in different areas of the world.

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements; such contracts are not settled net.

The following table approximates the financial impact, (assuming changes are not passed along to its customers), on the Company of a 10% increase in the cost of its most critical raw materials based upon purchases made in the respective years:

\$Millions	Earnings before tax	
	2015	2014
Natural and synthetic rubber	(2.06)	(2.89)
Carbon black	(1.24)	(2.06)
EPDM	(0.68)	(0.69)
Silicone	(1.02)	(0.83)
	<b>(5.00)</b>	(6.47)

# AirBoss of America Corp.

## Notes to CFS (cont'd)

A small portion of the Company's products are sold at prices denominated in CAD dollars or based on prevailing CAD dollar prices; most of the raw material purchases are denominated in US dollars and a significant portion of its operational costs and expenses are incurred in Canadian dollars. Therefore, an increase in the value of the US dollar relative to the Canadian dollar decreases the revenue in US dollar terms realized by the Company from sales made in Canadian dollars, partially offset by lower Canadian dollar operational costs/expenses, which decreases operating margin and the cash flow available to fund operations. The net Canadian monetary assets of its Canadian operations represent a currency risk as the balances are re-measured at the month end spot rate creating an unrealized exchange gain or loss.

The Company manages its currency risk relating to monetary assets and liabilities denominated in Canadian dollars by increasing or decreasing the proportion of operating or term loan denominated in Canadian funds or forward currency contracts. The Rubber Compounding segment's profit and loss is somewhat naturally hedged in that sales denominated in US dollars offset US dollar expenses and debt service costs. Engineered Product's business has relatively higher Canadian dollar expense content and is not naturally hedged.

The following table approximates the following impact on the Company of a \$0.10 decrease in the value of one Canadian dollar in US currency:

\$Millions	Earnings before tax	
	2015	2014
Sales (1)	(2.5)	(3.1)
Purchases (2)	6.3	5.8

(1) Based upon Canadian dollar-denominated sales in 2015

(2) Based upon combined 2015 Canadian purchases and expenses

### Interest Rate Risk

The Company's interest rate risk mainly arises from the interest rate impact on cash and floating rate debt. At the end of 2015, Canadian dollar borrowings are on a fixed rate basis (2014: variable rate basis). The US dollar borrowings are on a variable rate basis (2014: fixed rate basis). The Company has no formal policy to manage a certain proportion of borrowings on a fixed rate basis.

During 2014, the Company entered into an interest rate swap agreement for a notional amount of \$22.5 million. 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 0.98%. The swap agreement matures on February 27, 2017.

During 2015, the net interest expense of the swap agreement was \$180 and \$196 was paid; (2014: \$159 and \$136 was paid).

For the period ended December 31, 2015, the fair value of this agreement, representing a loss of \$73 (2014: \$76 loss) is recorded on the statement of financial position included in loans and borrowings and recorded on the statement of profit as finance costs.

The Company has entered into this interest rate swap agreement in order to fix the interest rate on a portion of its term loan and is not intended for trading or speculation purposes.

At the reporting date, the interest profile of the Company's interest-bearing financial instruments was:

<b>December 31</b>		
<i>In thousands of US dollars</i>	2015	2014
Fixed rate instruments		
Financial assets	1,722	2,308
Financial liabilities	(3,131)	(10,823)
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(74,704)	(39,765)
<b>Total</b>	<b>(76,113)</b>	<b>(48,280)</b>

### Fair value sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates for the year would have increased or decreased net income and equity by:

<i>In thousands of US dollars</i>	Net income and equity	
	100bp increase	100bp decrease
<b>2015</b>		
Variable rate instruments	(225)	225
<b>2014</b>		
Variable rate instruments	(152)	152

This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

## Notes to CFS (cont'd)

**Credit Risk**

The Company held cash and cash equivalents of \$11,961 at December 31, 2015 (2014: \$13,139), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A- to AA-, based on Standard and Poor's ratings.

The Company sells its products to a variety of customers under various payment terms in the normal course of its operations and therefore is exposed to credit risks. The Company's exposure to credit risk is influenced by general economic conditions, the default risk of the industry and the relative concentration of business. A majority of the Company's trade receivables are derived from sales to distributors and manufacturers who have been transacting with the Company for over five years. In monitoring credit risk, the Company considers industry, volume and aging trends, maturity and other relevant factors. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. Purchase limits established for certain accounts represent the maximum open balance permitted without approval from the CEO. The Company maintains reserves for potential credit losses relating to specific exposures, and any such losses to date have been within management's expectations. Revenues from one customer represent approximately 8% (2014: 10%) of the Group's total revenues. Five customers represented 32% (2014: 30%) of the Company's total revenues in 2015 and 2014 respectively. The loss of any such customers or the delay or cancellation of any orders under certain high-volume contracts could have a significant impact on the Company.

The Company believes that its five significant customers are credit worthy and has not recorded a provision for credit risk relating to these accounts.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions.

The Company manages liquidity by maintaining adequate cash balances, having appropriate lines of credit available and monitoring cash requirements to meet expected operational expenses, including debt service and capital requirements. In addition, the Company maintains a facility permitting the Company an accordion feature of up to an additional US \$50,000 availability, upon the satisfaction of customary conditions for such features. In 2014, under the prior credit agreement, the Company maintained a facility permitting the Company to borrow up to \$40,000. At year end, the Company had cash of \$12,000 and unused revolving credit facilities of \$60,000 (2014: cash of \$13,000 and unused facility of \$40,000).

**Fair value of financial instruments**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, share purchase loans, convertible promissory note, demand loan, accounts payable and accrued liabilities, interest rate swap, term loan and other debt and foreign exchange hedges. The fair values of cash and cash equivalents, accounts receivable, share purchase loans, convertible promissory note, demand loan, accounts payable and accrued liabilities, interest rate swap and foreign exchange hedges, as recorded in the consolidated balance sheets approximate their carrying amounts due to the short term maturities of these instruments. The fair value of the long term loan has been discounted using current market interest rates.

The carrying value and fair value are as follows:

December 31, 2015	Financial Instruments designated at fair value	Loans and Receivables (at amortized cost)	Other financial liabilities (at amortized cost)	Total carrying amount	Total fair value
<i>In thousands of US dollars</i>					
Cash and cash equivalents	11,961	-	-	11,961	11,961
Trade and other accounts receivable	-	42,148	-	42,148	42,148
Share Purchase loans	-	1,726	-	1,726	1,726
Convertible Promissory Note	-	275	-	275	275
<b>Total financial assets</b>	<b>11,961</b>	<b>44,149</b>	<b>-</b>	<b>56,110</b>	<b>56,110</b>
Interest rate swap	-	-	73	73	73
Foreign Exchange Hedge	-	-	-	-	-
Long term loan	-	-	76,849	76,849	77,912
Other liabilities	-	-	41,283	41,283	41,283
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>118,205</b>	<b>118,205</b>	<b>119,268</b>



# AirBoss of America Corp.

## Notes to CFS (cont'd)

December 31, 2014	Financial Instruments designated at fair value	Loans and Receivables (at amortized cost)	Other financial liabilities (at amortized cost)	Total carrying amount	Total fair value
<i>In thousands of US dollars</i>					
Cash and cash equivalents	13,139	-	-	13,139	13,139
Trade and other accounts receivable	-	42,546	-	42,546	42,546
Share Purchase loans	-	1,776	-	1,776	1,776
Convertible Promissory Note	-	582	-	582	582
<b>Total financial assets</b>	<b>13,139</b>	<b>44,904</b>	<b>-</b>	<b>58,043</b>	<b>58,043</b>
Interest rate swap	-	-	76	76	76
Foreign Exchange Hedge	-	-	116	116	116
Long term loan	-	-	50,872	50,872	51,464
Other liabilities	-	-	47,807	47,807	47,807
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>98,871</b>	<b>98,871</b>	<b>99,463</b>

The fair value of the share purchase loans, convertible promissory note and long term loan has been based on market interest rate (level 2) in 2014 and 2015. The Group has not disclosed the fair values for financial instruments (trade and other accounts receivable and other liabilities) as their carrying amounts approximate their fair values (level 3). There were no reclassifications between classes of financial assets and financial liabilities in 2014 and 2015. There were no transfers between levels of the fair value hierarchy in 2014 and 2015.

### Capital Management

The Company has defined its capital as follows:

#### December 31

<i>In thousands of US dollars</i>	2015	2014
Cash and cash equivalents	(11,961)	(13,139)
Term loan and other debt	76,922	50,948
<b>Net debt</b>	<b>64,961</b>	<b>37,809</b>
Shareholders' equity	99,534	90,035
	<b>164,495</b>	127,844

The Company's business is cyclical and it experiences significant changes in cash flow over the business cycle. In addition, the Company's financial performance can be materially influenced by changes in the relative value of the Canadian and US dollar.

The Company's fundamental objective in managing capital is to ensure adequate liquidity and financial flexibility at all times, but particularly at the bottom of the business cycle and in a strong Canadian dollar environment. The Company constantly monitors and assesses its financial performance in order to ensure that its net debt levels are prudent, taking into account the anticipated direction of the business cycle. When reviewing financing decisions, the Company considers the impact of debt and equity financing on its existing and future shareholders.

The Company has established a \$60,000 committed revolving line of credit that provides liquidity and flexibility when capital markets are restricted. Directors and Officers currently own 27.1% or 6,229,986 shares of the Company. Each Director is required to hold shares for value equal to 3 years retainer fees in order to align objectives with that of shareholders. There is no plan to extend availability of options beyond key management and senior employees. The Company has a dividend policy to provide an additional return to shareholders; the decision to pay dividends is reviewed quarterly.

The Board will review, from time-to-time, whether to implement or extend the Normal Course Issuer Bid or an offering if it will be accretive to shareholders.

The Company's approach to capital management is expected to remain unchanged in 2016.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

### NOTE 22 RESTRUCTURING

Subsequent to the acquisition of IRT, the Company decided to consolidate and integrate its manufacturing operations within the defense business. As a result, management announced to its employees and landlord at its Vermont facility, the plan to transfer these operations and to relocate its production to the Acton-Vale, Quebec facility. A building addition was completed at the Acton-Vale location and the Company transferred the machinery and equipment from the Vermont facility, to ensure a smooth transition and no impact to customer orders. Acton-Vale fully assumed all production activity prior to the closing of the facility in Vermont, which was completed in November 2015.

As of December 31, 2015, a restructuring provision of \$360 is recorded on the statement of financial position in trade and other payables, including derivatives and \$1,134 is recorded on the statement of income as other income (expense).

Corporate Information

**Board of Directors**

**Richard F. Crowe** (1) (2) (3)  
Aurora, Ontario

**Mary Matthews**, CPA, CA, ICD.D. (1) (2) (3)  
Toronto, Ontario

**Robert L. McLeish** (1) (2) (3)  
Port Carling, Ontario

**Brian A. Robbins** (1)  
President and CEO, Exco Technologies Limited  
Aurora, Ontario

**P. Grenville Schoch**  
Chairman and CEO, AirBoss of America Corp.  
Aurora, Ontario

**Alan J. D. Watson** (3)  
Sydney, AU

**Robert Hagerman**  
Aurora, ON

**Solicitors**

Davies Ward Phillips & Vineburg LLP  
Toronto, Ontario

**Auditors**

KPMG LLP  
Toronto, Ontario

**Transfer Agent And Registrar**

Computershare Investor Services, Inc.  
Toronto, Ontario

Stock Symbol Toronto Stock Exchange: BOS  
Web Site address: [www.airbossofamerica.com](http://www.airbossofamerica.com)  
Email address: [info@airbossofamerica.com](mailto:info@airbossofamerica.com)

Our Annual Meeting is Wednesday, May 11, 2016  
at 4:30 pm at Magna Golf Club,  
14780 Leslie Street, Aurora, Ontario

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of Corporate Governance Committee

# AirBoss of America Corp.

## Offices

### CORPORATE OFFICE

#### **AirBoss of America Corp.**

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Chairman and CEO:  
P. G. (Gren) Schoch

President:  
Lisa Swartzman

Chief Financial Officer:  
Wendy Ford

#### **AirBoss Produits d'Ingénierie Inc. AirBoss Engineered Products Inc.**

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President, AirBoss Engineered Products:  
Tom Ripley

Vice-President, Business Development:  
Sindy Carrier

Executive Vice-President:  
Yvan Ambeault

### SUBSIDIARIES

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(a division of AirBoss of America Corp.)

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Facsimile: 519-576-1315

President:  
Robert Dodd

Vice President Sales and Marketing:  
John Tomins

#### **AirBoss-Defense Landover**

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President:  
Doug Reid

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