AirBoss® of America Corp.

2019

Growth Through Innovation

ANNUAL REPORT

AirBoss' 1 million square foot flagship manufacturing facility is located on 18 acres in the heart of Kitchener, ON and home to the Company's new R&D/Technical Centre.

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At-a-Glance 2019

In 2019, AirBoss generated record net sales and EBITDA on the back of stable growth in the Rubber Solutions segment and improving performance in Engineered Products' defense business.

2019 Highlights

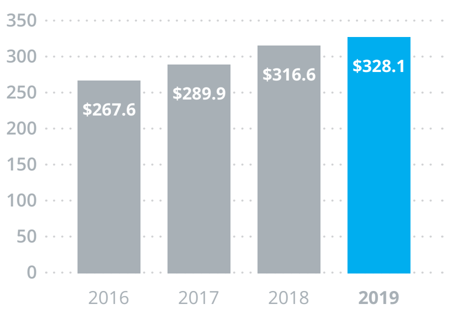
(in US$ unless otherwise noted)

- Net sales of $328.1 million up 3.6% over 2018
- EBITDA of $32.1 million up 25.0% over 2018
- Net Income of $10.2 million up 19.7% over 2018
- Declared quarterly dividends of C$0.07 totaling C$0.28 for the year
- $19.5 million capex investment focused on capacity, diversification and innovation
- Appointed two new directors with David Camilleri and Anita Antenucci joining the Board

FINANCIAL PERFORMANCE GRAPHS

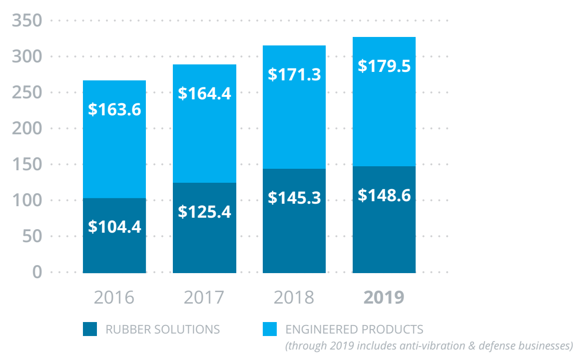
Net Sales

(millions of US$)



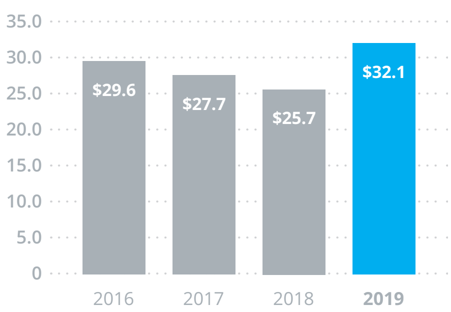
Net Sales by Segment

(millions of US$)



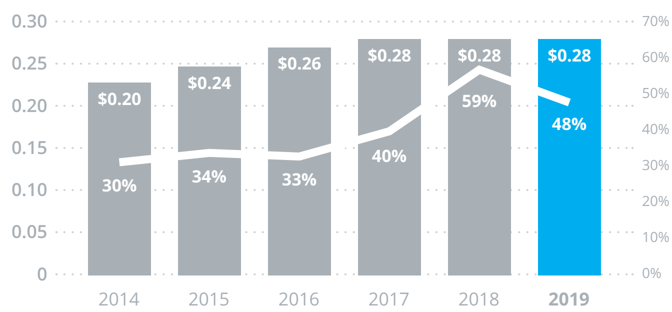
EBITDA

(millions of US$)



Dividend per Share & Payout Ratio

(in Canadian $)



Sustainability

AirBoss is committed to the principle of environmental stewardship. As such, AirBoss sources its natural rubber, one of the core constituents for its compounded products, from sustainable natural sources.

Natural Rubber is typically harvested on large, commercial plantations in a process that is very similar to the sourcing of sap for maple syrup. The natural rubber "sap" is then processed for use in rubber compounding. In addition to sourcing natural and sustainable raw materials, AirBoss endeavors to minimize the amount of scrap rubber produced both internally and by customers by developing methods to reuse any waste, off cuts and "out-of-spec" product in the production of new compounds. The Company also operates internal recycling and waste diversion initiatives with the intent of reducing the amount of material sent for landfill.

AirBoss has collaborated with Tyromer Inc. to implement a first-of-its-kind commercial scrap tire rubber crumb de-vulcanization system. Historically, scrap vulcanized rubber has been difficult to recycle because of the strong bonds created during the vulcanization process. Tyromer uses a supercritical carbon dioxide-assisted, thermal-mechanical extrusion process to convert scrap tire rubber into Tire-Derived Polymer ("TDP"). The process uses no de-vulcanizing chemicals or chemical solvents and is 99% efficient, making it highly environmentally friendly. The proprietary process also preserves the recycled product's ability to form new bonds when it is vulcanized. The TDP is used in creation of new compounds that include recycled content and perform like new rubber, rather than simply diverting rubber crumb to lower value applications such as filler for asphalt.

Offering Green Alternatives

DuraBoss™

*AirBoss' **DuraBoss** line of tire retreading products have developed a reputation for quality and durability under extreme off-the-road conditions. When a large mining truck requires a new set of tires, ordering a new replacement set is not always the best option. DuraBoss offers tire remanufacturers an opportunity to retread a tire, returning it to "near new" specifications at a fraction of the cost, and with reduced environmental impact, versus new.*

EcoBoss™

up to
20%
recycled
material

*For those tire remanufacturers and their customers looking to further "green" their operations, AirBoss now offers **EcoBoss**, a line of rubber compounds, for off-the-road retreading applications that incorporate up to 20% recycled material.*

Message to Shareholders

At AirBoss, innovation is a core driver for our business. In 2019, we made significant investments in innovation; opening a new R&D technical centre for our Rubber Solutions business; rolling out advanced manufacturing technologies in our anti-vibration segment; and launching a world class low-burden gas mask for use in the most challenging chemical, biological, radiological, nuclear ("CBRN") environments.

These developments, in combination with other initiatives we are advancing, will support our vision to build a strong leadership position in each of the markets we serve, with a focus on offering specialized solutions that both solve a broader range of increasingly complex customer challenges and support improved margins for AirBoss.

Driving Growth

Two years ago, we began making substantive changes to the way we conducted business. We strengthened our executive and operational management teams and began recruiting individuals with years of rubber compounding and processing experience, who also had a track record of driving growth through product engineering and development. In parallel, we focused heavily on implementing "lean" initiatives designed to drive efficiency, reduce waste and improve financial performance. In 2019, we began reaping the benefits of many of these changes as we saw net sales and particularly EBITDA climb to record levels, reversing the downward trend in EBITDA we saw in 2017 and 2018, better positioning us to generate long-term shareholder value.

Building our Rubber Solutions Core

AirBoss' Rubber Solutions business has grown steadily since 2016, with the number of pounds sold trending upward ahead of broader industry levels, at a compound annual rate in excess of 10%.

Even with this strong track record of consistent progress, we feel there are opportunities to accelerate both the pace and scale of growth in the future. In 2019, we embarked on a series of initiatives to support this objective. We installed a second mixing line in North Carolina, doubling our capacity at the Scotland Neck facility and ensuring a level of redundancy to provide seamless customer support. Late in the year, in an effort to reinforce our reputation for quality and consistency, we upgraded our highest capacity black rubber compounding line at our flagship Kitchener plant.

Building on our strengths in black rubber, in 2019 we began executing on a strategy to focus on color and specialty compounding, which was a gap in our product line that forced our existing customers to go elsewhere for their non-black compounding requirements. To better address these needs we installed a dedicated white/colour mixer, as well as a small volume specialty tilt mixer in our Kitchener plant. Being able to produce a broader range of increasingly specialized compounds means we can obtain better penetration with both existing and new customers. Our long-term vision for the Rubber Solutions business is to build defensible leadership positions in certain specialty niches both in North America and selected markets internationally, while retaining our strong position on traditional large-volume black compounds.

By establishing an enhanced focus on less commoditized and more specialized compounds, we can provide greater value to our customers by leveraging our enhanced scale and raw material buying power. Our goal is to penetrate the specialty market by offering our customers competitive prices on advanced compounds while generating higher margins for AirBoss. To aid us in the development of an increasingly advanced and complex array of compounds, we inaugurated a new R&D/technical centre. This dedicated laboratory will help us attract and retain world-class rubber science talent, better collaborate with customers and develop increasingly sophisticated formulations to add to our growing portfolio of 2,000+ proprietary compounds. Beyond these organic initiatives, we have significantly accelerated our internal process to seek out and assess acquisition and partnership opportunities with both traditional and specialty compounders.

Diversifying the Engineered Products Business

AirBoss' Engineered Products business focuses on rubber and rubber/metal bonded parts for anti-noise, vibration and harshness ("NVH") applications.

Major automakers and Tier I/II part suppliers comprise approximately 98% of the business, with 90% going into SUV, pick-up truck and minivan platforms, currently the most popular vehicles within the passenger auto space. Our anti-vibration business has experienced a series of challenges in recent years including tight competition, compressing margins and, more recently, tariffs. In 2019, we took a number of steps to address these challenges and position the business for long-term growth. Following on the heels of operational and management changes that began in 2018, we entered into a dialogue with customers around the profitability of certain components as well as the treatment of tariffs. In most cases, we were able to secure agreements that will offer some relief and better protect margins going forward.

With our company-wide focus on innovation, we looked to advanced manufacturing solutions in 2019 installing new molding equipment, which should significantly reduce cycle times, in addition to sourcing "lights out" robotic work cells that will allow us to better allocate labour costs going forward. Finally, we took the decision that we needed to better balance the contribution from the automotive space by diversifying into adjacent sectors with specific anti-NVH requirements. On that basis, we assembled a team with specific non-auto engineering, sales and marketing experience with the goal of developing new products for the military, heavy truck, bus, construction, agriculture and recreational vehicle sectors. We are well positioned to address some of the technical challenges these sectors are facing and any resulting products, although perhaps lower volume than their automotive counterparts, will involve a higher degree of technical sophistication and more advanced raw material inputs, supporting higher margins. In pursuit of this diversification we will also look at bolt-on acquisitions that deliver new products and enhanced technical capabilities or create opportunities in new sectors.

Establishing a Robust Survivability Platform

On January 1st, 2020 we announced the closing of the transaction to form AirBoss Defense Group ("ADG"), combining our existing suite of CBRN wearables and protection products with Critical Solutions International, Inc.'s ("CSI") route clearance solutions.

The transaction allowed us to realize some of the value inherent in our defense business, while allowing us to retain majority ownership (55%) in a strong, fully-integrated survivability solutions platform with the capabilities and scale to drive further growth beyond the scope of our traditional finished rubber products. CSI's strong sales and marketing skills and entrenched relationships with militaries and legislators globally, combined with AirBoss' extensive engineering and manufacturing capabilities, leaves us well positioned to grow in a period of unprecedented U.S. defense spending and global instability, including the rapidly emerging COVID-19 pandemic.

In 2019, we secured a lightweight molded overboot contract from the U.S. Department of Defense valued at up to US$26.7 million. Since October 2018, we have been awarded nearly US$150 million in contracts, including the last two international tenders for gas masks, and we continued to actively deliver against these through the end of 2019 and into the new year. In the face of the rapidly emerging COIVD-19 pandemic, we are seeing significant interest in our protective solutions that support patients, first responders and medical personnel, including ISO-POD™, powered air purifying respirators ("PAPRs"), and decontamination shelters. ADG was created to allow us to help in exactly these types of challenging situations and we continue to position ourselves to help governments and healthcare providers safeguard people around the world.

In 2020, ADG is bidding on international contracts valued at hundreds of millions of dollars. We are also committed to developing and/or acquiring innovative new survivability solutions. As an example, exposure to blast overpressure is increasingly being recognized as a contributor to PTSD and driving hundreds of millions of dollars in treatment costs as well as raising significant quality of life concerns for veterans. Blast Gauge® is a wearable sensor that measures exposure to concussive force and uploads data to a soldier's file for assessment by staff physicians. Blast Gauge is currently in advanced testing with the U.S. military and widespread rollout could translate into a significant source of recurring revenue for ADG. We will also continue to identify potential bolt-on acquisitions that offer new solutions for the defense and first responder segments that can further expand our survivability platform.

Committed to Strong Governance

In the second half of 2019 we welcomed David Camilleri and Anita Antenucci as directors, adding specific rubber, advanced manufacturing and defense industry expertise, and further diversifying our board. These appointments will also bring fresh perspective to bear, particularly as we work to expand our core Rubber Solutions business, diversify the anti-vibration segment and leverage the newly formed AirBoss Defense Group as a platform for growth.

We also want to recognize the important and long-term contribution of Bob Hagerman. Bob was a co-founder of AirBoss and CEO for more than 20 years, in addition to serving as a director for more than 30 years. We owe a tremendous amount to the work he has done for the Company and, although we are sad to see him leave the board, wish him the best in his retirement.

A Clear Vision for the Future

AirBoss has multiple pathways to drive both near- and longer-term value creation. This includes leveraging the US$19.5 million investment we made in capacity and innovation in 2019; working to create non-automotive anti-NVH solutions; fulfilling existing defense contracts and securing new ones while enhancing distribution into medical/first responder markets; and developing new more advanced compounds. We also intend to explore acquiring both traditional and specialty compounders to drive growth in our core Rubber Solutions business. In combination, this range of initiatives is expected to drive top-line growth, improve margins and ultimately provide us maximum flexibility in the allocation of increased capital to growth capex, stock buybacks or our dividend.

Our vision for the future is focused on innovation and diversification as we work to build on our traditional compounded black rubber and finished rubber products focus. We want to expand our reputation for quality and reliability and become the supplier of choice for increasingly sophisticated and less commoditized specialty products, in segments where we can build a strong, defensible leadership position.

In closing, we want to thank our shareholders for their continued support as we work to transform and grow our business. We also want to acknowledge the numerous contributions of both our long-serving and new board members to the evolving strategic direction of AirBoss. Finally, we want to thank our employees for their willingness to drive improvement in our operations, their efforts to get behind growth initiatives, their commitment to safety and their hard work in turning vision into reality. Their efforts drove our progress and the strong financial performance we delivered in 2019.

As a management team, we feel that AirBoss is embarking on an exciting new chapter in its history; one that will be marked by increased innovation, accelerated growth and enhanced value creation for our shareholders. We look forward to delivering on these objectives into 2020 and beyond.

P.G. Schoch
Chairman and CEO

Chris Bitsakakis
President and COO

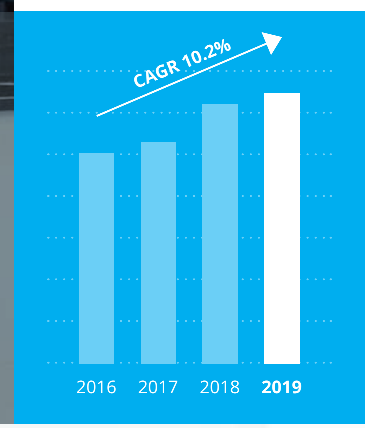
Rubber Solutions

AirBoss Rubber Solutions is North America's second largest custom compounder with more than 450 million pounds of annual capacity. The Company produces more than 2,000 proprietary compounds for predominantly blue-chip customers in the major tire, off-the-road, industrial, defense, and resource sectors. In 2019, AirBoss worked to expand its compounding capabilities beyond its traditional black rubber focus to include a growing array of white, colour and specialty compounds.

2019 Highlights

- Inaugurated state-of-the-art R&D/Technical Centre in Kitchener, ON
- Installed new high-volume black compound mixing line in Kitchener, ON
- Installed white/colour and specialty tilt mixing lines in Kitchener, ON
- Doubled black compound mixing capacity in Scotland Neck, NC
- Continued to grow rubber volumes; up more than 10% on a compound annual basis since 2016

Rubber Solutions Pounds Sold



Focus on Innovation

In November 2019, AirBoss inaugurated a new R&D Technical Centre, housing a laboratory, state-of-the-art technical and testing equipment and collaboration space, at its flagship manufacturing facility in Kitchener, ON. The new R&D Technical Centre will allow for enhanced collaborative development opportunities with both existing and future customers and is expected to support AirBoss' reputation for innovation through one of the most advanced rubber compound development laboratories in North America. It is also expected to help attract world-class rubber science talent and a skilled industrial workforce to the region. The existing laboratory facilities had been accredited to the internationally recognized ISO 17025 laboratory standard by the American Association of Lab Accreditation since 2003.

2019

Expanding into New Specialty Compounds

Installation of the new white/colour mixing line is allowing AirBoss to diversify beyond its traditional compounded black rubber offering.

One new emerging opportunity is in the fire hose space, where products are subjected to extremes of temperature and pressure and have to perform when lives are at stake, with 100% reliability. AirBoss' compounding expertise means it can help fire hose manufacturers assemble products that stand up to some of the harshest conditions imaginable, setting the standard for durability and reliability.

Leveraging the new R&D Technical Centre, AirBoss recently worked with a US-based fire hose manufacturer on an experiment designed to assess construction and cleaning protocols for fire hoses exposed to toxic industrial chemicals when deployed in the line of duty. The post-use cleaning protocols are being designed to minimize first-responder exposure to harmful substances following a firefighting event, when the equipment is returned to the operational base. The data can also be used to advance the design of next generation fire-fighting equipment to help further improve performance and safety.

Vision for Growth

AirBoss is focused on expanding beyond its traditional black rubber compounding business by developing defensible leadership positions in key, higher-margin specialty compounds through a combination of organic initiatives and strategic transactions. This approach is expected to support increased scale that improves raw material buying power, expansion beyond AirBoss' traditional North American markets and, ultimately, improved financial performance.

Diversification

Engineered Products

AirBoss Engineered Products focuses on anti-noise, vibration and harshness ("NVH") solutions, traditionally with a focus on the automotive industry. Today, approximately 90% of the rubber and hybrid rubber-metal components manufactured find their way into popular SUV, mini-van and pick-up truck platforms. Engineered Products key customers include OEM's as well as Tier I and II part-suppliers.

2019 Highlights

- Installed new high-efficiency molding equipment in Auburn Hills, MI
- Sourced and ordered robotic work cell for Auburn Hills, MI
- Assembled non-automotive products team
- Developing new, more technically advanced solutions for applications in the automotive sector and adjacent sectors with specific anti-noise, vibration and harshness requirements

Focus on Innovation

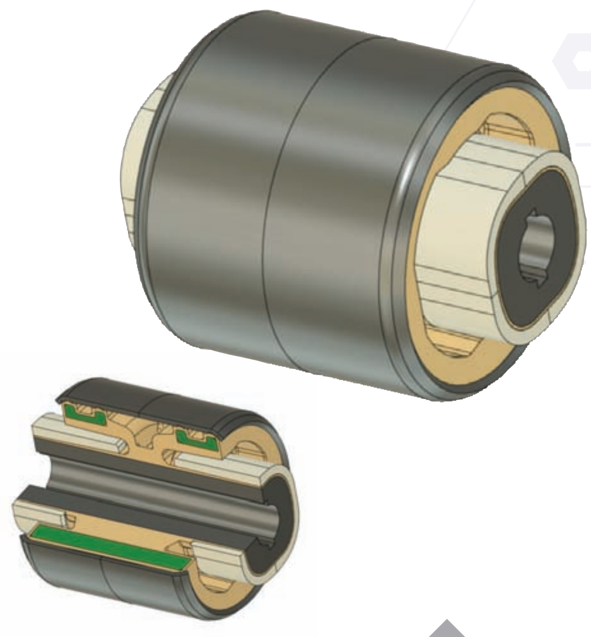
In 2019, AirBoss piloted new automated molding presses at its Auburn Hills, MI facility with the goal of reducing cycle times and more effectively managing labour costs. Since their introduction, these new presses have increased efficiency by approximately 40%.

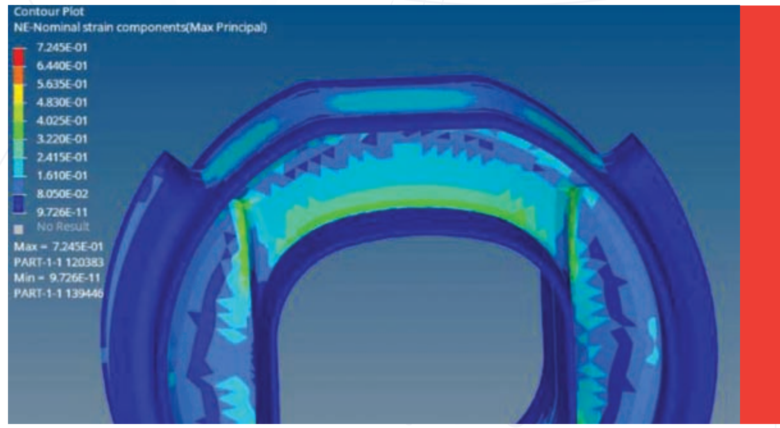
AirBoss also sourced and ordered a new robotic work cell that will also support higher throughput and better allocation of labour going forward. This technologically-advanced new installation will be among the first of its kind globally and will support advanced manufacturing operations in 2020 and beyond.

2019

Moving Products up the Technical Curve

AirBoss Engineered Products is actively working to develop the next generation of anti-noise, vibration and harshness solutions.





As part of the focus on solving increasingly complex challenges for customers, and its initiative to strengthen the operational teams in each of its businesses, AirBoss has recruited senior engineering talent with specific expertise in designing and developing hydraulic solutions.

A hydrobushing is a hybrid rubber/aluminum/fluid component designed to minimize vibration in the passenger cabin of luxury vehicles, but with applications across a range of vehicles including electric vehicles, heavy trucks, and construction and agricultural equipment. Adding hydraulic damping to a component offers an extra layer of isolation, permits multi-stage damping, and creates a new higher value solution that AirBoss can roll out across a range of market segments and applications.

Vision for Growth

AirBoss is focused on balancing the contribution from the automotive sector by diversifying into adjacent sectors with specific anti-NVH and other molded rubber requirements. Target markets include military, heavy truck, bus, construction, agriculture and recreational vehicles. The Company is looking to advance its solutions up the technology curve, solving increasingly complex technical challenges for customers while generating higher margins for AirBoss. Management intends to diversify its product offering and grow its technical capabilities through a combination of organic initiatives and potential "bolt on" transactions.

Survivability

AirBoss Defense Group

AirBoss Defense has a track record of producing innovative wearable and shelter/isolation products for use in chemical, biological, radioactive, and nuclear applications that leverage AirBoss' rubber compounding expertise. Many of these products have been selected by defense departments and first responder groups both in North America and internationally. The completion of the transaction to create AirBoss Defense Group ("ADG") has established a broader survivability products platform with the scale, products and capabilities to grow beyond its traditional finished rubber products focus.

2019 Highlights

- Secured US$26.7 million contract from the U.S. Department of Defense for Molded Overboot product
- Delivered regular shipments against the nearly US$150 million in contracts awarded since October 2018
- Announced (and subsequently completed) the transaction to merge AirBoss Defense and Critical Solutions International, Inc. to form ADG

Focus on Innovation

Traumatic brain injury among military personnel, both due to acute (IED detonation, artillery/mortar strike) and routine (weapon discharge, mortar launch) exposure to blast overpressure, is increasingly being tied to the development of neurological conditions, including depression and PTSD, among veterans[1]. The number of PTSD disability claims among veterans has grown from approximately 345,000 in fiscal 2008 to 940,000 cases in mid-2017[2]. With the high cost of associated treatment and the growing impact on the quality of life for veterans, ADG is pioneering an innovative solution.

The Blast Gauge® System is a lightweight wearable system of sensors that measures blast overpressure and captures and stores data for analysis by medical personnel.

The data can then be used to make decisions around combatant health and readiness, training regimens and future research objectives, all with the goal of protecting current and future generations of active service personnel.

The Blast Gauge® System is comprised of small, low-profile sensors that wirelessly transmit data and offer dashboard analytics. The system has a one-year field life and is replaced annually. Blast Gauge® is currently in late-stage testing with the U.S. Department of Defense and on acceptance could represent a source of recurring revenue for ADG.

[1] Vyas, et al., Military Medicine, Volume 181, Issue 10, October 2016, pages 1240-1247. https://doi.org/10.7205/MILMED-D-15-00585

[2] Leo Shane III, Military Times, July 25, 2017 https://www.militarytimes.com/news/pentagon-congress/2017/07/25/ptsd-disability-claims-by-vets-tripled-in-the-last-decade/

A Strong Survivability Platform

AirBoss Defense's latest-generation gas mask offers all the protection of its predecessors but with reduced breathing resistance and a large anti-ballistic single lens to maximize field of vision.

ISO-POD™ allows for the safe transport and treatment of patients while protecting first responders and medical personnel.

AirBoss' LBM has won the last two international tenders for gas masks and ADG is actively submitting the LBM to new requests-for-proposals globally, leveraging ADG's enhanced sales and marketing know-how.

Constructed using a proprietary AirBoss rubber formulation, the Low Burden Mask ("LBM") offers 24 hours of protection against a variety of weaponized chemical and biological threats as well as toxic industrial chemicals.

Key features include:

- Lightweight construction
- Easy, rapid donning and adjustment
- High-performance face seal and single layer, shatter-resistant polycarbonate lens
- Left, right or dual cannister mount (40 mm NATO thread)
- Voice amplifier to support clear in-theatre communication
- Integrated high-flow drinking system

Vision for Growth

The ADG transaction has created a dedicated survivability platform offering solutions that protect soldiers in a variety of field conditions and first responders dealing with scenarios ranging from chemical spills and disease epidemics all the way to a full-scale nuclear event. ADG intends to grow through a combination of internal product development and/or acquisitions, leveraging the broader capabilities of a fully-integrated platform to effectively market its products to a global audience. ADG is currently submitting to RFPs on hundreds of millions of dollars in defense contracts globally.

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 10, 2020 and should be read in conjunction with the Consolidated Financial Statements and Notes for the year ended December 31, 2019 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** and on the Company's website at **www.airbossofamerica.com**.

FORWARD-LOOKING INFORMATION

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

Statements containing forward-looking information are necessarily based upon a number of opinions, estimates and assumptions that, while considered reasonable by management at the time the statements are made, are inherently subject to significant business, economic and competitive risks, uncertainties and contingencies. AirBoss cautions that such forward-looking information involves known and unknown contingencies, uncertainties and other risks that may cause AirBoss' actual financial results, performance or achievements to be materially different from its estimated future results, performance or achievements expressed or implied by the forward-looking information. Numerous factors could cause actual results to differ materially from those in the forward-looking information, including without limitation: impact of general economic conditions; 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 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 information.

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

OVERALL PERFORMANCE

Highlights for the 4th Quarter and Fiscal Year

(In US dollars)

- Grew net sales by 12.1% and 3.6% for the fourth quarter and 2019 fiscal year periods, respectively, versus the comparable periods in 2018;
- Increased consolidated EBITDA by 54.1% to $8.8 million in the fourth quarter of 2019 vs $5.7 million in 2018, and by 25.0% to $32.1 million in 2019 vs $25.7 million in 2018;
- Grew EPS by 83.3% to $0.11 in the fourth quarter of 2019 (2018 - $0.06), and by 18.9% to $0.44 for the full year period ($0.37 - 2018);
- Paid a quarterly dividend of C$0.07 per common share for a total annual payment of C$0.28;
- Awarded a contract by the U.S. Department of Defense to manufacture up to 600,000 pairs of molded CBRN lightweight overboots ("MALO") valued at up to $26.7 million;
- Invested $19.5 million during 2019 on capital expenditures related to growth initiatives and equipment upgrades across the organization, in addition to a new research and development facility at the Kitchener, Ontario plant;
- Announced the appointments of Anita Antenucci and David Camilleri to the Board of Directors; and
- Closed the merger between AirBoss' defense business and Critical Solutions International, Inc. on January 1, 2020.

Selected Financial Information

In thousands of US dollars, except share data

For years ended December 31	**2019**	2018	2017
Financial results:			
Net sales	**328,126**	316,603	289,855
Net income	**10,219**	8,536	12,632
Net income per share			
– Basic	**0.44**	0.37	0.55
– Diluted	**0.44**	0.37	0.54
EBITDA[1]	**32,082**	25,675	27,653
Net cash from operating activities	**11,706**	19,867	5,811
Dividends declared per share (CAD$)	**0.28**	0.28	0.28
Capital additions[1]	**26,700**	8,476	7,294
Financial position:			
Total assets	**249,664**	232,528	225,948
Term loan and other debt[2]	**74,144**	62,956	69,257
Shareholders' equity	**125,979**	121,483	117,161
Outstanding shares*	**23,392,442**	23,392,442	23,091,113
**23,392,442 at March 10, 2020*			

[1]Capital additions includes $7,219 of leased assets.

[2]Term loan and other debt as at December 31, 2019, includes $14,542 of lease liabilities (see Significant Accounting Policies)

[3]See Non-IFRS Financial Measures

[3]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 measures:

EBITDA	Earnings before interest income, interest expense, income taxes and depreciation and amortization

EBITDA is a non-IFRS financial measure directly derived from the consolidated financial statements but does not have a standardized meaning prescribed by IFRS and is 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.

Because EBITDA excludes some, but not all, items that affect net income, EBITDA presented by the Company may not be comparable to the similarly titled measures of other companies under IFRS.

A reconciliation of net income to EBITDA is presented below:

In thousands of US dollars	**2019**	2018	2017
Net Income	**10,219**	8,536	12,632
Finance costs	**3,831**	2,921	2,567
Depreciation, amortization, and impairment	**13,716**	10,966	10,684
Income tax expense	**4,316**	3,252	1,770
EBITDA	**32,082**	25,675	27,653

OVERVIEW

To support longer-term growth, AirBoss invested in a series of key strategic initiatives across the business in 2019 with a dual focus on innovation and diversification. Capital expenditures for 2019 were $19.5 million dollars (excluding leases). Capital expenditures are expected to decrease closer to historical levels in 2020. In light of the emerging Coronavirus (COVID-19) outbreak, AirBoss has taken steps, including risk mitigation plans within the Company's supply chain, intended to reduce any potential impact to its business and that of customers, by identifying alternative raw material sources both domestically and internationally.

For the Rubber Solutions segment, areas of investment in 2019 include new mixing lines in Kitchener, ON and Scotland Neck, NC that, in addition to increasing annual capacity by 20 and 50 million pounds, respectively, will support production of a broader array of compounded products (white and color), as well as provide enhanced flexibility in attracting and fulfilling new business. The Company also recently brought online a new "tilt" mixer, which should support the production of increasingly specialized, higher margin compounds, further diversifying the AirBoss' offering and enhancing penetration with both existing and new customers. In Kitchener, AirBoss has finished upgrading its office and laboratory facilities to support enhanced collaboration with customers and better reflect the Company's focus on innovative R&D and proprietary technical solutions.

Within the Engineered Products segment, management is continuing to address key challenges in the anti-vibration business directly, with the near-term focus on driving margins through better cost management, improved pricing strategies and investments in advanced manufacturing, including piloting new presses and sourcing and ordering a new robotic work cell expected to come online in the first half of 2020. In addition, the recently strengthened sales and marketing team is working to both increase penetration with existing customers as well as target new ones, including major automakers and Tier I and II parts suppliers. Over the medium and longer-term, the team is focused on launching new products that diversify initially into opportunities adjacent to the automotive space, such as trucking, buses, construction and motorcycles/ATVs, but increasingly across a range of sectors where anti-noise, vibration and harshness solutions are required including, renewable energy, marine, rail and appliances.

In May 2019, AirBoss announced a transaction to create AirBoss Defense Group ("ADG") through the merger of the AirBoss defense business with privately-owned Critical Solutions International. While management believes there are numerous synergies associated with transaction, most important is the creation of a strong platform with the scale, capabilities and flexibility to act on an array of growth opportunities, both organic and transactional. AirBoss' defense business continues to identify and submit to tenders internationally, cumulatively valued at hundreds of millions of dollars. The transaction closed immediately subsequent to year-end on January 1, 2020. In the near-term, ADG remains focused on fulfilling the contracts secured in 2018 and 2019, including the recent MALO contract award from the U.S. Department of Defense. ADG is also working to advance next-generation products like Blast Gauge® and a new version of the low-burden mask through development and testing.

As part of its go-forward strategy for the Company, management is focused on four core priorities:

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

AirBoss continues to generate meaningful returns to shareholders through a stable quarterly dividend, while driving improved profitability and simultaneously investing in core areas of the business to expand a solid foundation that will support long-term growth.

RESULTS OF OPERATIONS – For years ended December 31, 2019 compared to 2018

NET SALES

Consolidated net sales for the year ended December 31, 2019 increased by 3.6% to $328,126, compared with 2018 and were up in both segments. In the Engineered Products segment, net sales were higher in the defense business and lower in the anti-vibration business compared with 2018, for the reasons outlined below.

In thousands of US dollars		Rubber Solutions	Engineered Products	Total
Net Sales	**2019**	**148,582**	**179,544**	**328,126**
	2018	145,264	171,339	316,603
Increase $		3,318	8,205	11,523
Increase %		2.3	4.8	3.6

Rubber Solutions

Net sales for the year ended December 31, 2019 increased by 2.3%, to $148,582, from $145,264 in 2018. The increase in net sales was principally due to an 8.4% increase in volume (measured in pounds shipped). This increase was partly offset by an approximate 3.0% decrease in raw material prices, where the savings were passed on to customers.

The increase in net sales was reflected across a number of sectors and primarily in the mining, tolling and defense sectors. These increases were partly offset by softness in the track and chemical sectors.

Tolling volumes for the year ended December 31, 2019 increased by 24.7%, compared with 2018. The increase in volume was in conventional applications while niche applications were flat. Non-tolling volumes for the year ended December 31, 2019 also increased compared with 2018, up 3.8%.

Engineered Products

Net sales in the Engineered Products segment increased by 4.8%, to $179,544, from $171,339 in 2018. Increased net sales in the defense business were partly offset by decreases in the anti-vibration business compared to 2018.

Net sales in the anti-vibration business for the year ended December 31, 2019 decreased by 3.4%, to $124,887 from $129,348 in 2018. The decrease was due to lower demand across most product lines and in particular dampers, bushings and muffler hangers.

Net sales for the year ended December 31, 2019 in the defense business increased by 30.2% to $54,657 from $41,991 in 2018. The increased net sales were in the gloves, masks and boots product lines. These increases were partly offset by lower demand in the shelters, filters and powered air purifying respirators ("PAPRs") product lines.

GROSS PROFIT

For the year ended December 31, 2019, consolidated gross profit was up by $3,763 to $48,754. Gross profit as a percentage of net sales increased to 14.9% from 14.2%, primarily as a result of increased volumes in the Rubber Solutions segment and the defense business within the Engineered Products segment, for reasons discussed above.

In thousands of US dollars		Rubber Solutions	Engineered Products	Total
Gross Profit	**2019**	**25,718**	**23,036**	**48,754**
	2018	22,364	22,627	44,991
Increase $		3,354	409	3,763
% net of sales	**2019**	**17.3**	**12.8**	**14.9**
	2018	15.4	13.2	14.2

Rubber Solutions

For the year ended December 31, 2019, gross profit for Rubber Solutions was $25,718 (17.3% of net sales), up $3,354 compared to $22,364 (15.4% of net sales) in 2018. The increase was principally due to higher volume, for reasons discussed above.

Engineered Products

Gross profit for the year ended December 31, 2019 in the Engineered Products segment was $23,036 (12.8% of net sales), up $409 compared with $22,627 (13.2% of net sales) in 2018. The increase in gross profit was principally due to higher net sales and a favorable product mix in the defense business within the Engineered Products segment. This increase was partly offset by lower net sales in the anti-vibration business for reasons discussed above which also negatively impacted gross profit as a percentage of net sales for the segment.

OPERATING EXPENSES

Consolidated operating expenses for the year ended December 31, 2019 increased by $106 to $30,388 compared with 2018. The increase was primarily due to higher administration costs which include fees related to the merger of AirBoss Defense with Critical Solutions International, Inc., resulting in the creation of AirBoss Defense Group (the "ADG transaction") on January 1, 2020. In addition, compensation costs, professional fees, office expenses and discretionary spending), and higher research and development ("R&D") further increased operating expenses. These increases were partly offset by foreign exchange gains (compared to losses in 2018) resulting in a favorable net change of $2,453 and an insurance settlement associated with a fire that occurred at the plant in Scotland Neck, North Carolina, which further reduced costs. As a percentage of net sales, operating expenses for the year ended December 31, 2019 decreased marginally to 9.3% from 9.6% in 2018.

In thousands of US dollars		Rubber Solutions	Engineered Products	Corporate	Total
Operating Expenses	**2019**	**8,204**	**18,358**	**3,826**	**30,388**
	2018	7,870	16,901	5,511	30,282
Increase (decrease) $		334	1,457	(1,685)	106
% net of sales	**2019**	**5.5**	**10.2**	**N/A**	**9.3**
	2018	5.4	9.9	N/A	9.6

Rubber Solutions

Rubber Solutions' operating expenses for the year ended December 31, 2019 increased by 4.2%, to $8,204, compared with $7,870 in 2018. The increase was primarily due to higher compensation costs. This increase was partially offset by an insurance payout related to a January 2019 fire at the Scotland Neck, North Carolina facility. The Company recorded an impairment charge of $366 related to assets lost or damaged in the fire and received payments of $1,159 to cover expenses and damage to assets and $128 to cover business interruption losses. The Company moved quickly to minimize interruption to its customers and production at the Scotland Neck facility resumed in February 2019.

Engineered Products

Engineered Product's operating expenses for the year ended December 31, 2019 increased by 8.6% to $18,358. The increase was primarily due to higher administration and R&D costs.

Unallocated Corporate Costs

Unallocated corporate costs for the year ended December 31, 2019 decreased by $1,685 from 2018, primarily due to a foreign exchange gain (compared to a loss in 2018) resulting in a favorable net change of $2,240, partially offset by higher administration costs. Increased administration costs relate to $1,401 (2018: $390) of professional fees associated with the ADG transaction, partially offset by lower compensation costs.

FINANCE COST

In thousands of US dollars		Rubber Solutions	Engineered Products	Corporate	Total
Finance cost	**2019**	**4,356**	**388**	**(913)**	**3,831**
	2018	4,583	3	(1,665)	2,921
Increase (decrease) $		(227)	385	752	910
% of net sales	**2019**	**2.9**	**0.2**	**N/A**	**1.2**
	2018	3.2	0.0	N/A	0.9

Finance costs in 2019 were $3,831 (2018: $2,921). The increase was primarily due to an unrealized mark-to-market loss on an interest rate swap (compared to a gain in 2018) and the inclusion of interest expense from leases primarily related to the adoption of IFRS 16 (discussed below in Significant Accounting Policies), offset by lower interest expense on the term loan.

INCOME TAX EXPENSE

For the year ended December 31, 2019, the Company recorded an income tax expense of $4,316 (2018: $3,252) or an effective income tax rate of 29.7% (27.6% in 2018). The statutory rate in 2019 was 26.5% (2018: 26.5%). The effective tax rate increased primarily due to professional fees associated with the ADG transaction that are not deductible for current year tax purposes.

	Tax expense		Rate	
In thousands of US dollars	**2019**	2018	**2019**	2018
Expected statutory rate	**3,852**	3,124	**26.50%**	26.50%
Foreign rate differential	**456**	179	**3.14%**	1.52%
Effect of permanent differences	**(286)**	(110)	**(1.97%)**	(0.93%)
Change in tax rates and new legislation	**26**	22	**0.18%**	0.19%
Filing differences	**(100)**	119	**(0.69%)**	1.01%
Deductible temporary differences not recognized	**667**	-	**4.59%**	0.00%
Other	**(299)**	(82)	**(2.06%)**	(0.70%)
Effective tax rate	**4,316**	3,252	**29.69%**	27.59%

NET INCOME AND EARNINGS PER SHARE

Net income in 2019 amounted to $10,219, compared with $8,536 in 2018. The basic and fully diluted net earnings per share were $0.44 (2018: $0.37) and $0.44 (2018: $0.37) based on basic and fully diluted shares outstanding of 23,392,442 (2018: 23,345,305) and 23,445,894 (2018: 23,383,248), respectively. The increase in net income and earnings per share was due to higher gross profit offset by higher finance costs and income tax expense, as discussed above.

QUARTERLY INFORMATION

In thousands of US dollars			Net income per share	
Quarter Ended	Net Sales	Net Income	Basic	Diluted
2019				
December 31, 2019	**85,762**	**2,457**	**0.11**	**0.11**
September 30, 2019	77,173	1,525	0.07	0.07
June 30, 2019	82,616	3,311	0.14	0.14
March 31, 2019	82,575	2,926	0.13	0.12
2018				
December 31, 2018	**76,484**	**1,331**	**0.06**	**0.06**
September 30, 2018	77,773	1,347	0.06	0.06
June 30, 2018	81,797	2,660	0.11	0.11
March 31, 2018	80,549	3,198	0.14	0.14

Fourth Quarter 2019 Results

NET SALES

Consolidated net sales for the three-month period ended December 31, 2019 increased by 12.1% to $85,762, from $76,484 for the same period in 2018, with increases in Engineered Products' defense business partially offset by decreases in Rubber Solutions and Engineered Products' anti-vibration business, for the reasons outlined below.

Rubber Solutions

While overall volume increased 10.0%, net sales for the three-month period ended December 31, 2019 in the Rubber Solutions segment decreased 1.9% to $34,904, from $35,584 for the same period in 2018. The decrease in net sales was reflective of an approximate 6.7% decrease in raw material prices where the savings were passed on to customers. In addition, a higher product sales mix in tolling versus non-tolling applications, discussed below, further negatively impacted the net sales growth. In tolling applications, the Company only realizes net sales on the provision of compounding services for customer-supplied material, versus non-tolling where AirBoss also supplies the raw material input that are reflected in net sales.

The decrease in net sales for the three-month period ended December 31, 2019 was primarily in the conveyor belt and track sectors and partly offset by the mining sector.

Tolling volumes for the three-month period ended December 31, 2019 increased by 49.4% compared with 2018. The increase in volume was in conventional applications which were partly offset by decreases in niche applications. Non-tolling volumes for the three-month period ended December 31, 2019 increased marginally compared to 2018, up 0.7%.

Engineered Products

Engineered Products net sales for the three-month period ended December 31, 2019 increased by 24.3% to $50,858 compared with the same period in 2018. An $11,425 increase in net sales for the defense business was partly offset by a $1,467 decrease in the anti-vibration business for the reasons discussed below.

The increase in the defense business for the three-month period ended December 31, 2019, compared with the same period in 2018, was across most product lines and primarily in the masks, boots and gloves product lines. These increases were partly offset by lower net sales in the anti-vibration business due to lower demand across the majority of product lines and in particular the muffler hangers, bushings and spring insulator product lines.

GROSS PROFIT

Consolidated gross profit for the three-month period ended December 31, 2019 increased to $13,246 (15.4% of net sales) from $10,306 (13.5% of net sales) in the same period in 2018 with increases in Rubber Solutions and Engineered Products' defense business partially offset by decreases in Engineered Products' anti-vibration business.

Rubber Solutions

For the three-month period ended December 31, 2019, gross profit at Rubber Solutions was $6,103 (17.5% of net sales), compared with $6,066 (17.0% of net sales) in the same period in 2018. The increase in gross profit was principally due to higher volume for the fourth quarter in 2019 compared with the same period in 2018.

Engineered Products

Gross profit at Engineered Products for the three-month period ended December 31, 2019 increased by $2,903 to $7,143 (14.0% of net sales) compared with $4,240 (10.4% of net sales) in 2018. The increase was mainly due to the increased net sales in the defense business, for the reasons discussed above, and a favorable product mix, which was partly offset by lower net sales in the anti-vibration business within the Engineered Products segment.

OPERATING EXPENSES

Consolidated operating expenses for the three-month period ended December 31, 2019 increased by $803, compared with the same period in 2018. The increase was primarily related to higher administration costs (related to professional fees for the ADG transaction, and higher compensation expenses) and higher R&D costs. The increase was partially offset by a foreign exchange gain (compared to a loss in 2018) resulting in a favorable net change of $1,340.

INCOME TAX EXPENSE

Tax expense for the three-month period ended December 31, 2019 increased by $1,169 compared to the same period in 2018. Income tax expense increased due to professional fees associated with the ADG transaction that are not deductible for current year tax purposes.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its 2020 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 (2018: $60,000). No amount was drawn against this facility as at December 31, 2019.

For the period ended December 31, 2019, $11,706 (2018: $19,867) of cash was provided by operations, $19,481 (2018: $8,235) was used for investing activities and $9,996 (2018: $11,418) was used in financing activities. Cash and cash equivalents decreased by $17,741 from $17,862 to $121, adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

For the year ended December 31, 2019, cash provided by operating activities decreased by $8,161 compared to 2018. The decrease was due to a $11,337 increase in cash used for net working capital, increased tax payments of $774 due to higher tax installment payments, and higher interest payments of $280 which were partially offset by a $1,683 increase in net income and higher non-cash expenses of $2,547.

Cash used for working capital for the year ended December 31, 2019 increased to $11,573 (2018: $236) as a result of the following factors:

- Cash used for accounts receivable was $11,597, of which $10,011 was attributable to the timing of large shipments made by Engineered Products' defense business in December 2019, and $1,643 from Engineered Products' anti-vibration business related to delayed payments by customers;
- Cash used for Inventory was $1,893, of which $1,540 was attributable to Engineered Products' anti-vibration business due to production expected in Q1 2020, and $1,362 to Engineered Products' defense business related to upcoming contract deliveries, partially offset by a $1,008 decrease at Rubber Solutions due to inventory returning to historical levels, as 2018 levels were to service a higher than normal volume of activity in January 2019; and
- Cash used for prepaid expenses was $286, with the increase over the prior year primarily related to insurance premiums;
- Cash from accounts payable was $2,336 of which $1,177 was attributable to Engineered Products' defense business related to increased production, $1,235 from Engineered Products' anti-vibration business related to increased inventory, and $1,522 at the corporate level related to increased compensation and accrued professional fees on the ADG transaction. These increases were partially offset by a $1,598 decrease at Rubber Solutions related to reduced raw material purchases.

Investing Activities

Property, Plant and Equipment

For the year ended December 31, 2019, the following investments were made in each segment:

Rubber Solutions made investments of $12,690. This included $2,529 to support growth initiatives, $1,347 to replace equipment damaged in the fire that occurred at the Scotland Neck, North Carolina facility in January 2019, $2,155 for the new R&D laboratory facility in Kitchener, Ontario, $445 on cost savings initiatives, and the remaining spend was to replace or upgrade existing property, plant and equipment.

Engineered Products made investments of $4,571. This included $2,259 to support growth initiatives, $1,117 on cost savings initiatives, and the remaining spend was to replace or upgrade existing property, plant and equipment.

Intangible assets

The Company invested $2,220, made up of $928 of product development costs for the defense business and the balance for new financial reporting and productivity software.

Financing activities

The Company's current credit facilities are comprised of a $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), and an accordion feature of up to an additional $50,000 of availability, upon the satisfaction of customary conditions for such features. The revolving credit facility and term debt mature in January 2021.

In March 2019 the calculation of one of the loan covenants on the Company's credit facilities was amended on a prospective basis. In December 2019 the maturity of the credit facilities was extended from December 2020 to January 2021. In January 2020 the Company signed an amended and restated credit agreement in connection with the merger between AirBoss' defense business and Critical Solutions International, Inc. The amended and restated credit agreement matures in January 2023 and otherwise carries similar terms as the existing credit agreement.

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

The fees are being amortized over 5 years and $306 (2018: $307) has been amortized and is included in finance costs.

Interest expense on the term debt was $2,581 (2018: $2,630).

Commitments and contractual obligations

The Company's contractual obligations as at December 31, 2019 are summarized below:

	Payments Due In						
	2019	**2020**	**2021**	**2022**	**2023**	**Thereafter**	**Total**
Term loan	3,769	56,250	-	-	-	-	60,019
Lease liabilities	1,589	1,634	1,328	1,358	1,345	7,288	14,542
Purchase obligations	10,770	-	-	-	-	-	10,770
Total	16,128	57,884	1,328	1,358	1,345	7,288	85,331

The Company has inventory purchase commitments at December 31, 2019 for its Rubber Solutions and Engineered Products segments of $8,195 and $2,575 (2018: $9,213 and $5,666) respectively. Rubber Solutions decreased their commitment for natural rubber purchases based on market pricing. The purchase commitments for Engineered Products decreased because their 2018 commitments included a ramp-up for contract delivery.

Government assistance

During 2019, Rubber Solutions recognized grants of $118 (2018: $135). Engineered Products did not recognize grants in 2019 or 2018.

Scientific research and investment tax credits of $537 were recognized in 2019 (2018: $780); research and development costs were reduced accordingly. No reduction to capital assets was recognized in respect of provincial tax credits (2018: nil).

Dividends

A quarterly dividend of $0.07 per share was declared on November 5, 2019 and paid on January 15, 2020. Total dividends declared during the year were $0.28 per common share compared to $0.28 per common share in 2018.

Outstanding shares

As at December 31, 2019 the Company had 23,392,442 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

During the year, the Company paid rent for the corporate office of CAD $180 (2018: CAD $180) to a company controlled by the CEO and Chairman of the Company.

During the year, the Company paid fees for the use of a facility in South Carolina of approximately $28 (2018: $26) to a company in which the CEO and Chairman is an officer.

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

December 31 *In thousands of US dollars*	**2019**	2018
Salaries and other short term benefits	**4,154**	3,378
Share-based payment expense	**352**	633
	4,506	4,011

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 own 26.3% of the outstanding common shares as at December 31, 2019 (2018: 26.4%).

During 2014, the Company provided a share purchase loan of CAD $1,000 to the Vice-Chair to purchase common shares of the Company that was repaid in November 2019. In December 2016, the Company provided a share purchase loan of CAD $250 to the Chief Financial Officer. In March 2018, the Company provided a share purchase loan of CAD $500 to the President and Chief Operating Officer. On June 28, 2019, the Company provided share purchase loans of CAD $300 to the Executive Vice President, Corporate and General Counsel; CAD $92 to the President and Chief Operating Officer; and CAD $100 to the Vice President Human Resources. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or the fifth anniversary of the issuance date. All share purchase loans issued prior to 2019 bear interest at 1% annually and all subsequent loans share purchase loans bear interest at 2% annually. In all cases, loans are full recourse and interest is due and payable semi-annually. In total, 120,185 shares of the Company having a fair value of $812 were pledged as collateral on these loans. At December 31, 2019, the loan receivables of $961, including accrued interest of $5, were included in other assets. During the year, interest of $9 (2018: $11) was paid.

NEW STANDARDS ADOPTED

The Company has adopted IFRS 16, Leases ("IFRS 16") effective January 1, 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

The Company leases buildings, vehicles and equipment. As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. However, the Company has elected not to recognize right-of-use assets and lease liabilities for some leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term. The Company presents right-of-use assets in the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below.

In thousands of US dollars	**Property**	**Equipment**	**Vehicles**	**Total**
Balance at January 1, 2019	7,020	342	125	7,487
Balance at December 31, 2019	12,215	909	110	13,234

The Company presents lease liabilities in "loans and borrowings" in the statement of financial position.

Significant accounting policies

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is presented in investment property. The right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Company's accounting policies.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company applied judgment to determine the lease term for a lease contract running month-to-month, which significantly affects the amount of lease liability and right-of-use asset recognized.

Transition

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application adjusted by the amount of any prepaid or accrued lease payments.

The Company used the following practical expedients and exemptions when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

– Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than a 12-month term or of low-value;
– Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease; and
– Grandfathered the definition of leases for existing contracts at the date of initial application.

Impact on financial statements

Impact of transition

On transition to IFRS 16, the Company recognized additional right-of-use assets and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition is summarized below.

In thousands of US dollars	**January 1, 2019**
Right-of-use assets	7,244
Deferred tax asset	285
Write-off accrued rent	(199)
Lease liabilities	8,632
Retained earnings	(904)

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied was 4.6%.

In thousands of US dollars	**January 1, 2019**
Operating lease commitment at December 31, 2018	9,683
Discounted using the incremental borrowing rate at January 1, 2019	8,638
Recognition exemption for leases of low-value assets	(1)
Recognition exemption for leases with less than 12 months of lease term at transition	(5)
	8,632
Finance lease liabilities recognized at December 31, 2018	235
Lease liabilities recognized at January 1, 2019	8,867

Impact on the period

As at December 31, 2019, the Company recognized $13,234 of right-of-use assets and $14,542 of lease liabilities. In relation to these leases the Company has recognized depreciation and interest costs. During the period, the Company recognized $1,471 of depreciation charges and $449 of interest costs.

FUTURE ACCOUNTING STANDARDS

Amendments to IFRS 9, Financial Instruments ("IFRS 9") and IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39")

On September 26, 2019, the IASB issued amendments for some of its requirements for hedge accounting in IFRS 9, Financial Instruments and IAS 39, Financial Instruments: Recognition and Measurement, as well as the related standards on disclosures, IFRS 7, Financial Instruments: Disclosures. The amendments are effective from January 1, 2020. The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by interest rate benchmark reform in the following areas:

- the 'highly' probable requirement,
- prospective assessments,
- retrospective assessments (for IAS 39), and
- eligibility of risk components.

The adoption of amendments to IFRS 9 and IAS 39 are not expected to have a material impact on the 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, net sales 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 net sales 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

As at December 31, 2019, Engineered Products' anti-vibration business recorded a $225 allowance for impairment and Rubber Solutions recorded a $256 allowance for impairment.

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, 2019, a reserve for impaired inventory in Rubber Solutions represents $2,231 (2018: $1,773). Engineered Products maintains a provision of $795 (2018: $489) in the defense business and $564 (2018: $593) for the anti-vibration business.

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 2019 or 2018.

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 2019 or 2018.

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 14 to the Consolidated Financial Statements. Deferred tax assets have been recorded relating to loss carry-forward amounts when 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.

FINANCIAL INSTRUMENTS

Foreign exchange hedge

At December 31, 2019, the Company had contracts to sell USD $19,715 from January 2020 to November 2020 for Canadian dollars ("CAD") $26,200. The fair value of these contracts, representing an unrealized gain of $457, are included in trade and other receivables, including derivatives on the statement of financial position. The unrealized changes in fair value, representing a gain of $1,254 (2018: loss of $1,049), are recorded on the statement of profit as other income (expense).

Interest rate swap

In 2017, the Company entered into an interest rate swap agreement for a notional amount of $35,000 ($28,000 and $30,800 as at December 31, 2019 and December 31, 2018, respectively) amortizing down to $24,267 at maturity. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%. The swap agreement matures on December 10, 2020.

During 2019, the interest income of the swap agreement was $179 (2018: $77).

At December 31, 2019, the fair value of this agreement, representing a loss of $19 (2018: gain of $434), is included in loans and borrowings on the statement of financial position. The change in the fair value, representing a loss of $453 (2018: gain of $169), is recorded on the statement of profit as finance costs.

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

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, a number of such industry sectors are cyclical in nature. The Company is particularly sensitive to trends in the automotive, tire, energy generation, defense, 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 from rubber compounds manufactured by the Rubber Solutions segment. The global automotive industry is also cyclical, with the potential for regional differences in timing of expansion and contraction. A significant decline in automobile production volumes for the North American market from current levels could have a material adverse effect on the profitability of our Engineered Products segment. At AirBoss Defense Group, the timing and size of orders from government defense departments worldwide is highly dependent on the political climate in the applicable jurisdiction, the broader geopolitical climate and their impact on defense budgeting and spending and a significant decline in defense budget and spending from current levels could have a material adverse effect on the profitability of AirBoss Defense Group.

Political Uncertainty and Policy Change

Certain of the business sectors in which we and our customers operate, particularly in the anti-vibration and defense businesses, are highly globalized industries. Election of protectionist governments or implementation of protectionist trade policies could negatively impact the movement of goods, services and people across borders, including within North America. Uncertainty created by rapidly changing political circumstances may impact our ability to plan effectively for our businesses over the short- and medium-terms, until such time as policy changes or new laws, if any, are implemented. For example, such uncertainty may affect plans relating to establishing operations in new locations (directly or through joint ventures) or potential acquisitions. A material variation between our planning assumptions and actual outcomes could have a material adverse effect on our profitability and financial condition.

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 relatively small number of customers. Net sales from one customer represent approximately 9% (2018: 8%) of consolidated net sales in 2019. Five customers represented 31% (2018: 33%) of consolidated net sales in 2019. While the Company continues to work on diversification of its customer base in all segments, there is no assurance of continued success and shifts in market share away from these top customers could adversely impact our profitability.

Raw Materials and Inventory

The Company depends on various outside sources of supply 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 shortage of such raw materials could potentially delay delivery of our products or supplies, increase our costs and decrease our profitability. The Company maintains multiple supply sources in different areas of the world to mitigate the risk of shortages or price increases experienced in certain, but not all, markets. However, there can be no assurance that such multiple supply sources can be maintained in the future and multiple sources cannot overcome a global shortage in a particular raw material, should one occur.

Historically, raw material markets have been extremely volatile with key materials doubling or halving in price within a relatively short period, and the Company does not expect such volatility to cease. Excess inventory or shortages of raw material 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, natural rubber, carbon black and synthetic rubber, ethylene propylene diene monomer ("EPDM"), steel and silicone is directly or indirectly affected by factors such as exchange rates and the price of oil and, in the case of natural rubber, weather conditions that impact harvest seasons. 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:

	Earnings before tax	
$Millions	**2019**	2018
Natural and synthetic rubber	**(3.38)**	(2.98)
Steel	**(3.24)**	(3.00)
Carbon black	**(1.84)**	(1.71)
EPDM	**(0.42)**	(0.34)
Silicone	**(0.86)**	(0.82)
	(9.74)	(8.85)

Competition and Price Pressure

The Company competes directly against major North American and international companies in the custom rubber compounding, anti-vibration and industrial rubber product market segments. Some of these companies have strong established competitive positions in these markets, including having a direct local presence in international markets where the Company does not, and may be sheltered by domestic tariffs. 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, the customers of several industry sectors are price sensitive and thus, certain of the more commodity-like products in our businesses can be affected by severe price pressure, which in turn could adversely impact our profitability in those areas.

Contract-related Risks

Contracts from many of our customers, particularly in the rubber compounding and anti-vibration businesses, consist of individual purchase orders or blanket orders under umbrella supply agreements. In these cases, there is no obligation on any customer to continue to issue individual purchase orders and most umbrella supply agreements do not impose minimum purchase requirements and also permit the customer to terminate blanket orders at any time. The termination of blanket orders could result in the Company incurring various pre-production, engineering and other costs that we may not recover from our customer and which could have an adverse impact on our profitability. In addition, it is difficult to predict accurately when opportunities to win contract awards for defense products from Canadian, United States or other foreign governments will arise and how long the contract tender to award and subsequent commencement of production process will take. A prolonged tender process without a corresponding award could also result in the Company incurring various pre-production, engineering and other costs that we may not recover and which could have an adverse impact on our profitability.

Currency Exposure

The Company has net sales 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 borrowings 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-flows. 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):

	Earnings before tax	
$Millions	**2019**	2018
Sales (1)	**(2.4)**	(2.9)
Purchases (2)	**6.8**	6.1

(1) Based upon Canadian dollar-denominated sales

(2) Based upon Canadian dollar-denominated debt repayments, purchases and expenses

Health, Safety and the Environmental

The Company’s operations are subject to extensive health, safety and environmental (HSE) regulations by federal, provincial, state and local authorities. The Company employs individuals who undertake manufacturing activity and handle various substances in its manufacturing process, the nature of which may expose the Company to risks of causing or being deemed liable for injury or environmental or other damages. The Company regularly assesses its policies and procedures relating to workplace safety in its production facilities. 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 HSE regulations. However, there can be no assurance that future personal injury or environmental damage will not occur or that personal injury or environmental damage due to prior or present practices will not result in future liabilities. While management believes that the Company is in substantial compliance with all material HSE government requirements relating to its operations, changes in government laws and regulations are ongoing and may make HSE compliance increasingly expensive. It is not possible to predict future costs, which may be incurred to meet such obligations.

Impacts of Global Health Situations

Global health situations can have an impact on the Company’s operations. It is currently too early to accurately project any impact that COVID-19 (Coronavirus) may have, since the duration and scope of the outbreak is not yet known with any certainty. However, if the outbreak continues for an extended period of time, AirBoss may experience supply chain disruptions, in particular given production delays in Asia, a decline in sales activities, and reductions in operations and workforce.

Product Liability and Warranty Claims

As a manufacturer of rubber-based and other products, the Company faces a risk of product liability and warranty claims from its direct customers and, in some cases, from end-users of its products. Although the Company carries commercial general liability insurance of the types, and in the amounts it believes to be reasonable by industry standards, any claim which is successful and is not covered by insurance or which exceeds the policy limit could have a material adverse effect on the Company.

Capacity and Equipment

Our rubber compounding facilities have an annual capacity to process approximately 450 million turn pounds.

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 to its customers at competitive prices and at a high quality standard.

The Company has made regular investments in capacity and efficiency across its operations and should additional equipment be required to fulfill any substantial increases in sales, the Company expects that it can be readily sourced in the market, however any material failure of our equipment or inability to purchase additional required equipment could have a material adverse effect on the Company.

Production Disruptions

Our production facilities, and those of our subcontractors, are subject to risk of shut-down caused by fire, natural disaster or other catastrophic event, labour conflicts or other forces or events beyond our control, or could result from a disruption of supply of source materials from suppliers and sub-suppliers. Any prolonged shut-down of one or more of our production facilities or that of our subcontractors could result in a materially negative impact on our profitability.

Acquisitions and Integration

As part of our growth strategy, we will continue to pursue acquisitions in areas we have identified as consistent with such strategy. However, there can be no assurance that we will identify suitable targets for acquisition or be able to acquire suitable targets successfully. In addition, there is also a risk that the Company may not be able to successfully integrate any acquisition or achieve all or any of the anticipated synergies of such acquisitions or to do so within the anticipated timelines, any of which could adversely impact our profitability and financial condition.

Key Personnel

The Company's future success largely depends on its ability to recruit, retain and develop qualified managers and other key personnel. If key persons leave the Company and successors cannot be recruited or if the Company is unable to attract qualified personnel, this could have a negative impact on our profitability and financial condition.

DISCLOSURE CONTROLS AND PROCEDURES

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, 2019, 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.

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.

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. 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, 2019 and believe¬ the design and effectiveness of the internal controls to be effective.

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, 2019 and December 31, 2018 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 10, 2020

P. Gren Schoch	**Daniel Gagnon**
Chairman & Chief Executive Officer	Chief Financial Officer

Independent Auditors' Report

To the Shareholders of AirBoss of America Corp.

Opinion

We have audited the consolidated financial statements of AirBoss of America Corp. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018
- the consolidated statements of profit and other comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"Auditors' Responsibilities for the Audit of the Financial Statements"** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is William J. Stephen.

Vaughan, Canada
March 10, 2020

Consolidated Statement of Financial Position

In thousands of US dollars	*Note*	**December 31, 2019**	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents		**121**	17,862
Trade and other receivables, including derivatives	*4,9*	**68,890**	57,080
Prepaid expenses		**4,689**	4,806
Inventories	*5*	**41,996**	39,691
Current income taxes receivable	*14*	**1,611**	2,216
Total current assets		**117,307**	121,655
Non-current assets			
Property, plant and equipment	*6*	**80,169**	59,243
Intangible assets	*7*	**49,935**	50,634
Deferred Income tax assets	*14*	**846**	-
Other assets	*8*	**1,407**	996
Total non-current assets		**132,357**	110,873
Total assets		**249,664**	232,528
LIABILITIES			
Current liabilities			
Loans and borrowings	*10*	**5,358**	3,794
Trade and other payables, including derivatives	*9*	**43,590**	41,561
Provisions	*11*	**103**	174
Current taxes payable	*14*	**753**	-
Total current liabilities		**49,804**	45,529
Non-current liabilities			
Loans and borrowings	*10*	**68,786**	59,162
Employee benefits	*17*	**510**	474
Provisions	*11*	**626**	580
Deferred income tax liabilities	*14*	**3,959**	5,300
Total non-current liabilities		**73,881**	65,516
Total liabilities		**123,685**	111,045
EQUITY			
Share capital	*12*	**39,579**	39,579
Contributed surplus	*12*	**1,262**	1,157
Retained earnings		**85,138**	80,747
Total equity		**125,979**	121,483
Total liabilities and equity		**249,664**	232,528

The notes on pages 36 to 63 are an integral part of these consolidated financial statements.
Commitments (note 16), Subsequent events (note 22).

On behalf of the Board

P.G. Schoch
Director

Robert L. McLeish
Director

Consolidated Statement of Profit and Comprehensive income

For the year ended December 31 *In thousands of US dollars*	*Note*	**2019**	2018
Net Sales		**328,126**	316,603
Cost of sales	*5*	**(279,372)**	(271,612)
Gross profit		**48,754**	44,991
General and administrative expenses	*3*	**(25,016)**	(22,230)
Selling and marketing expenses		**(5,294)**	(5,343)
Research and development expenses	*15*	**(1,907)**	(1,555)
Other income (expenses)		**1,829**	(1,154)
Operating expenses		**(30,388)**	(30,282)
Results from operating activities		**18,366**	14,709
Finance costs	*10,17*	**(3,831)**	(2,921)
Profit before income tax		**14,535**	11,788
Income tax expense	*14*	**(4,316)**	(3,252)
Profit and total comprehensive income for the year		**10,219**	8,536
Earnings per share			
Basic	*13*	**0.44**	0.37
Diluted	*13*	**0.44**	0.37

The notes on pages 36 to 63 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company			
In thousands of US dollars	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance at January 1, 2018	37,860	2,067	77,234	117,161
Total comprehensive income for the year				
Profit for the year	-	-	8,536	8,536
Contributions by and distributions to owners				
Stock options expensed	-	206	-	206
Share options exercised	1,786	(852)	-	934
Share repurchases	(67)	(252)	-	(319)
Share options forfeited	-	(12)	-	(12)
Dividends to equity holders	-	-	(5,023)	(5,023)
Total contributions by and distributions to owners	1,719	(910)	(5,023)	(4,214)
Balance at December 31, 2018	39,579	1,157	80,747	121,483

	Attributable to equity holders of the Company			
In thousands of US dollars	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance at January 1, 2019	39,579	1,157	80,747	121,483
Impact of change in accounting policy (note 3)	-	-	(904)	(904)
Adjusted balance at January 1, 2019	39,579	1,157	79,843	120,579
Profit and total comprehensive income for the period	-	-	10,219	10,219
Contributions by and distributions to owners				
Stock options expensed	-	170	-	170
Share options forfeited	-	(65)	-	(65)
Dividends to equity holders	-	-	(4,924)	(4,924)
Total contributions by and distributions to owners	-	105	(4,924)	(4,819)
Balance at December 31, 2019	39,579	1,262	85,138	125,979

The notes on pages 36 to 63 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31 *In thousands of US dollars*	*Note*	**December 31, 2019**	December 31, 2018
Cash flows from operating activities			
Profit for the year		**10,219**	8,536
Adjustments for:			
Depreciation	*6*	**10,415**	7,847
Amortization of intangible assets	*7*	**2,935**	3,119
Impairment of assets		**366**	-
Finance costs	*10,17*	**3,831**	2,921
Unrealized foreign exchange losses (gains)		**(1,327)**	891
Share-based payment expense	*11,12*	**386**	668
SRED tax credits	*15*	**(537)**	(780)
Current income tax expense (recovery)	*14*	**6,272**	3,014
Deferred income tax recovery	*14*	**(1,956)**	238
Other	*17*	**(4)**	(84)
		30,600	26,370
Change in inventories		**(1,893)**	(1,400)
Change in trade and other receivables		**(11,597)**	(5,163)
Change in prepaid expenses		**(286)**	(1,621)
Change in trade and other payables		**2,336**	9,433
Change in provisions		**(133)**	(1,485)
Net change in non-cash or working capital balances		**(11,573)**	(236)
Interest paid		**(3,094)**	(2,814)
Income tax paid		**(4,227)**	(3,453)
Net cash provided by operating activities		**11,706**	19,867
Cash flows from investing activities			
Acquisition of property, plant and equipment	*6*	**(17,261)**	(7,264)
Acquisition of intangible assets	*7*	**(2,220)**	(971)
Net cash used in investing activities		**(19,481)**	(8,235)
Cash flows from financing activities			
Repayment of borrowings		**(3,750)**	(6,584)
Principal payments for lease liabilities		**(1,614)**	(7)
Payment of debt refinancing fees		**(128)**	-
Exercise of stock options (net of withholding taxes)		**-**	934
Repayment of share purchase loan	*8*	**764**	-
Issuance of share purchase loans	*8*	**(364)**	(392)
Share repurchases		**-**	(319)
Interest received on share purchase loan		**9**	11
Dividends paid	*12*	**(4,913)**	(5,061)
Net cash used in financing activities		**(9,996)**	(11,418)
Net (decrease) / increase in cash and cash equivalents		**(17,771)**	214
Cash and cash equivalents at January 1		**17,862**	17,748
Effect of exchange rate fluctuations on cash held		**30**	(100)
Cash and cash equivalents at December 31		**121**	17,862

The notes on pages 36 to 63 are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements ("CFS")

For the years ended December 31, 2019 and 2018
(Amounts in thousands of US dollars, except per share amounts, unless otherwise specified)

NOTE 1 REPORTING ENTITY

AirBoss of America Corp. is a public company listed on the Toronto Stock Exchange, incorporated and domiciled in Ontario. Its registered office is located at 16441 Yonge Street, Newmarket, Ontario, Canada. AirBoss of America Corp. and its subsidiaries are together referred to, in these consolidated financial statements, as the "Company" or "AirBoss". The Company has operations in Canada and the US and is involved primarily in the manufacture of high-quality rubber-based products to resource, military, automotive and industrial markets (see Note 18).

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

List of Subsidiaries

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

Operating Subsidiaries	Jurisdiction	Ownership % (2019 & 2018)
AirBoss Rubber Compounding (NC) Inc.	North Carolina	100%
AirBoss Engineered Products Inc.	Quebec	100%
SunBoss Chemicals Corp.	Ontario	100%
AirBoss Flexible Products Co.	Michigan	100%
Immediate Response Technologies, LLC	Delaware	100%

AirBoss, through its Rubber Solutions segment, is engaged in custom rubber compounding, supplying mixed rubber for use in mining, transportation, industrial rubber products, military, automotive, conveyor belting, oil and gas and other products, primarily in North America. The Rubber Solutions segment also operates our industrial products business, which as well as custom rubber compounding, develops and manufactures calendered, extruded and molded products for a broad range of applications and industries, out of Acton Vale, Quebec. SunBoss Chemicals Corp. sources chemicals used in the rubber compounding business for both internal consumption and external sales to customers who mix compounds internally, and its financial results are included in the financial disclosure provided in respect of the Rubber Solutions segment.

The Engineered Products segment operates a defense products line out of Acton Vale, Quebec, Bromont, Quebec and Landover, Maryland, USA and an anti-vibration products business out of Auburn Hills, Michigan. AirBoss Engineered Products Inc. /AirBoss Produits d'Ingénierie Inc. ("AEP") and Immediate Response Technologies, LLC ("IRT") collectively operate our defense business (under the trade name "AirBoss Defense"). AirBoss Defense is a leader in the development, manufacture and sale of Chemical, Biological, Radiological and Nuclear ("CBRN") protective equipment and related products for military, first response and healthcare applications. AirBoss Flexible Products Co. operates our automotive business and is a leading manufacturer and supplier of innovative and cost-effective anti-vibration and noise dampening solutions primarily to the North American automotive market. Our automotive business designs, engineers and manufactures rubber, synthetic rubber and rubber-to-metal bonded products that are used to eliminate or control undesired vibration and noise, to enhance interior comfort, 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 10, 2020.

(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 USD has been rounded to the nearest thousand, except where 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 3 and 21 – leases

Note 4 – trade and other receivables

Note 5 – inventories

Note 7 – intangible assets

Note 14 – income taxes

Note 15 – 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 7 – intangible assets - key assumptions used in value-in-use calculations;

Note 11 – provisions;

Note 12 – capital and other components of equity;

Note 14 – income taxes;

Note 16 – commitments and contingencies; and

Note 17 – 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.

(a) Foreign currency

(i) Functional and presentation currency

Items included in the financial statements of each of the Company'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 Company's functional and presentation currency.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to functional currencies 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 are presented on a net basis in the income statement within other income (expense).

(b) Financial instruments

(i) Financial assets and liabilities

The Company recognizes financial assets and financial liabilities initially at fair value and subsequently measures these at either fair value or amortized cost based on the following classifications:

Fair value through profit or loss (FVTPL):

Financial assets and financial liabilities purchased or incurred, respectively, with the intention of generating earnings in the near term, and derivatives other than cash flow hedges, are classified as FVTPL. This category includes derivative assets and derivative liabilities that do not qualify for hedge accounting. For items classified as FVTPL, the Company initially recognizes such financial assets on the consolidated statement of financial position at fair value and recognizes subsequent changes in the consolidated statements of profit. Transaction costs incurred are expensed in the consolidated statement of profit. The Company does not currently hold any liabilities designated as FVTPL.

Fair value through other comprehensive income (FVTOCI):

This category includes the Company's investments in equity securities. Subsequent to initial recognition, they are measured at fair value on the consolidated statement of financial position and changes therein are recognized in other comprehensive income. When an investment is derecognized, the accumulated gain or loss in other comprehensive income is transferred to the statement of profit.

Amortized cost:

The Company classifies financial assets held to collect contractual cash flows at amortized cost, including cash and cash equivalents, trade and other receivables, and share purchase loans. The Company initially recognizes the carrying amount of such assets on the consolidated statements of financial position at fair value plus directly attributable transaction costs, and subsequently measures these at amortized cost using the effective interest rate method, less any impairment losses.

Financial liabilities that are not classified as FVTPL include trade and other payables and long-term debt. These financial liabilities are recorded at amortized cost on the consolidated statement of financial position.

(ii) Impairment of financial assets

The Company uses the forward looking "expected credit loss" model to determine the allowance for impairment as it relates to trade and other receivables. The Company's allowance is determined by historical experiences, and considers factors including the aging of the balances, the customer's credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets/location of customers.

(iii) Dercognition

The Company derecognizes a financial asset when the contractual rights to the cash flows and benefits from the asset expire or are settled. The difference between the carrying amount of the financial asset and the sum of consideration received and receivable is recognized in the consolidated statements of profit.

Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated statements of profit.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when and only when, the Company 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.

(iv) Derivative financial instruments

The Company holds stand-alone derivative financial instruments to reduce its foreign currency risk exposures. Such 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 the consolidated statements of profit.

(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 Company 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, the amount recorded prior to the transition to IFRS.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested at least 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 total sales to customers, 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 Company 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 Company 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 Company 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) Other long-term employee benefits

The Company 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 Company'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 Company's obligations. Any actuarial gains and losses are recognized in other comprehensive income and retained earnings in the period in which they arise.

(ii) Defined Contribution Plan

US operating subsidiaries of Airboss maintain 401(k) defined contribution plans for their respective employees. The Company and its Canadian operating subsidiaries maintain registered and unregistered defined contribution plans for their employees. Contributions to these plans are expensed as incurred.

(iii) Multi-Employer Pension Plan

The Company contributes to the Steel Workers Pension Trust, a defined benefit multi-employer pension plan (MEPP) under the terms of collective-bargaining agreements that cover its union-represented employees in the State of Michigan. Defined benefit MEPPs are accounted for as defined contribution plans as adequate information to account for the Company's participation in the plan is not available due to the size and number of contributing employees in the plan. The risks of participating in a MEPP 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 Company chooses to stop participating in the multi-employer plan, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

(iv) Bonus Plan

The Company 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 Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Defined Benefit plan

The Company provided 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 Company'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 Company'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 Company recognize 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 Company's net obligation, are recognized at that time as a gain or loss to the current Statement of Income.

(g) Provisions

Provisions for environmental restoration and legal claims are recognized when: the Company 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) Net Sales:

(i) Goods Sold

Net sales 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. Net sales for production of finished goods is recognized at the point in time control of the goods is transferred to the customer. Control of finished goods production transfers upon shipment to, or receipt by, customers depending on the terms of the contract. Generally, the buyer has no right of return except if the product did not comply with the agreed upon specifications.

(ii) Services

Net sales for tolling services is recognized over time as value is added to the raw materials which are controlled and provided by the customer.

(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

During 2018 payments made under operating leases were recognized in profit or loss, on a straight-line basis, over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense over the term of the lease.

The Company has adopted IFRS 16, Leases ("IFRS 16") effective January 1, 2019, see *New Standards adopted*.

(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 Company 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 Company'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), and head office expenses.

(n) Share-based payments

In 2015, the shareholders approved the Company's 2015 Omnibus Incentive Plan ("Omnibus Plan"). The Omnibus Plan is a share-based compensation plan, under which the entity receives services from directors, employees and certain advisors as consideration for equity instruments of the Company. The fair value of the services received in exchange for the grant of the equity awards is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the awards granted.

Under the Omnibus Plan, the Company can issue restricted stock units, performance share units, deferred share units and stock options pursuant to the terms and conditions of the Omnibus Plan and the related award agreements entered into thereunder.

Non-market vesting conditions are included in assumptions about the number of equity awards 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 equity awards 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. Unless net settled, when 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. Liabilities related to performance share units are settled through cash payment, and liabilities related to deferred share units are settled through the issuance of shares, or equivalent cash value, at the Company's sole discretion

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

(o) New Standards adopted

The Company has adopted IFRS 16, Leases ("IFRS 16") effective January 1, 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

The Company leases buildings, vehicles and equipment. As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. However, the Company has elected not to recognize right-of-use assets and lease liabilities for some leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term. The Company presents right-of-use assets in the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below.

In thousands of US dollars	**Property**	**Equipment**	**Vehicles**	**Total**
Balance at January 1, 2019	7,020	342	125	7,487
Balance at December 31, 2019	12,215	909	110	13,234

The Company presents lease liabilities in "loans and borrowings" in the statement of financial position.

Significant accounting policies

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is presented in investment property. The right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Company's accounting policies.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company applied judgment to determine the lease term for a lease contract running month-to-month, which significantly affects the amount of lease liability and right-of-use asset recognized.

Transition

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application adjusted by the amount of any prepaid or accrued lease payments.

The Company used the following practical expedients and exemptions when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

– Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than a 12-month term or of low-value;

– Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease; and

– Grandfathered the definition of leases for existing contracts at the date of initial application.

Impact on financial statements

Impact of transition

On transition to IFRS 16, the Company recognized additional right-of-use assets and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition is summarized below.

In thousands of US dollars	**January 1, 2019**
Right-of-use assets	7,244
Deferred tax asset	285
Write-off accrued rent	(199)
Lease liabilities	8,632
Retained earnings	(904)

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied was 4.6%.

In thousands of US dollars	**January 1, 2019**
Operating lease commitment at December 31, 2018	9,683
Discounted using the incremental borrowing rate at January 1, 2019	8,638
Recognition exemption for leases of low-value assets	(1)
Recognition exemption for leases with less than 12 months of lease term at transition	(5)
	8,632
Finance lease liabilities recognized at December 31, 2018	235
Lease liabilities recognized at January 1, 2019	8,867

Impact on the period

As at December 31, 2019, the Company recognized $13,234 of right-of-use assets and $14,542 of lease liabilities. In relation to these leases the Company has recognized depreciation and interest costs. During the period, the Company recognized $1,471 of depreciation charges and $449 of interest costs.

(p) Future Accounting Standards

Amendments to IFRS 9, Financial Instruments ("IFRS 9") and IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39")

On September 26, 2019, the IASB issued amendments for some of its requirements for hedge accounting in IFRS 9, Financial Instruments and IAS 39, Financial Instruments: Recognition and Measurement, as well as the related standards on disclosures, IFRS 7, Financial Instruments: Disclosures. The amendments are effective from January 1, 2020. The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by interest rate benchmark reform in the following areas:

• the 'highly' probable requirement,

• prospective assessments,

• retrospective assessments (for IAS 39), and

• eligibility of risk components.

The adoption of amendments to IFRS 9 and IAS 39 are not expected to have a material impact on the consolidated financial statements.

NOTE 4 TRADE AND OTHER RECEIVABLES

December 31 *In thousands of US dollars*	**2019**	2018
Trade receivables	**67,900**	55,858
Less: allowance for impairment	**(481)**	(399)
	67,419	55,459
Loan to Officers (note 8)	**-**	734
Other receivables	**1,471**	887
	68,890	57,080

Impairment losses

The aging of trade receivables at the reporting date was:

	2019		2018	
December 31 *In thousands of US dollars*	**Gross**	**Impairment**	Gross	Impairment
Within terms	**50,875**	**-**	41,196	-
Past due 0-30 days	**12,769**	**-**	10,756	-
Past due 31-120 days	**4,256**	**(481)**	3,906	(399)
	67,900	**(481)**	55,858	(399)

The continuity of the allowance for impairment was:

For the year ended December 31 *In thousands of US dollars*	**2019**	2018
Balance at January 1	**(399)**	(185)
Impairment loss recognized	**(296)**	(361)
Collected	**214**	147
Balance at December 31	**(481)**	(399)

NOTE 5 INVENTORIES

December 31 *In thousands of US dollars*	**2019**	2018
Raw materials and consumables	**30,371**	28,769
Work in progress	**3,435**	3,142
Finished goods	**11,368**	9,848
Inventory in transit	**412**	787
	45,586	42,546
Provisions	**(3,590)**	(2,855)
	41,996	39,691

An inventory charge of $735 (2018: charge of $515) was included in cost of sales.

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

In thousands of US dollars	Land and buildings	Plant and equipment	Furniture and equipment	Under construction	Total
Cost or deemed cost					
Balance at January 1, 2018	18,790	78,390	1,813	4,119	103,112
Additions	138	1,030	233	6,104	7,505
Disposals	-	(772)	(7)	-	(779)
Transfers	491	4,164	162	(4,817)	-
Balance at December 31, 2018	19,419	82,812	2,201	5,406	109,838
Recognition of right-of-use asset on adoption of IFRS 16	7,019	-	225	-	7,244
Additions	9,127	4,527	340	10,590	24,584
Disposals	(12)	(616)	(251)	-	(879)
Transfers	687	2,645	120	(3,465)	(13)
Balance at December 31, 2019	36,240	89,368	2,635	12,531	140,774
Accumulated depreciation					
Balance at January 1, 2018	6,324	35,715	1,482	-	43,521
Depreciation for the year	990	6,703	154	-	7,847
Disposals	-	(766)	(7)	-	(773)
Balance at December 31, 2018	7,314	41,652	1,629	-	50,595
Depreciation and impairment for the year	2,362	8,204	215	-	10,781
Disposals	(12)	(507)	(252)	-	(771)
Transfers	21	(192)	171	-	-
Balance at December 31, 2019	9,685	49,157	1,763	-	60,605

Carrying amounts

In thousands of US dollars	Land and buildings	Plant and equipment	Furniture and equipment	Under construction	Total
At December 31, 2018	12,105	41,160	572	5,406	59,243
At December 31, 2019	26,555	40,211	872	12,531	80,169

Depreciation expense of $9,910 (2018: $7,625) was charged to costs of sales, $445 (2018: $108) was charged to general and administrative expense and $60 (2018: $114) was charged to research and development expenses.

NOTE 7 INTANGIBLE ASSETS

In thousands of US dollars	Customer Relationships	Goodwill	Software and Development costs	Total
Cost				
Balance at January 1, 2018	28,250	32,225	5,846	66,321
Purchases	-	-	971	971
Balance at December 31, 2018	28,250	32,225	6,817	67,292
Purchases	-	-	2,237	2,237
Disposals	-	-	(95)	(95)
Balance at December 31, 2019	28,250	32,225	8,959	69,434
Amortization				
Balance at January 1, 2018	9,787	-	3,752	13,539
Amortization for the year	2,825	-	294	3,119
Balance at December 31, 2018	12,612	-	4,046	16,658
Amortization for the year	2,825	-	110	2,935
Disposals	-	-	(94)	(94)
Balance at December 31, 2019	15,437	-	4,062	19,499
Carrying amounts				
At December 31, 2018	15,638	32,225	2,771	50,634
At December 31, 2019	12,813	32,225	4,897	49,935

Amortization expense of $2,935 (2018: $3,119) was charged to general and administrative expense. Remaining amortization for customer relationships acquired is 3.8 to 5.5 years.

Goodwill

December 31 *In thousands of US dollars*	**2019**	2018
Defense	**22,160**	22,160
Anti-vibration	**10,065**	10,065
	32,225	32,225

Indefinite-life intangible assets – customer relationships

December 31 *In thousands of US dollars*	**2019**	2018
Defense	**6,737**	7,963
Anti-vibration	**6,076**	7,675
	12,813	15,638

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. As at December 31, 2019 and December 31, 2018, 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 9.3%
- 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 one-year period. Cash flows for a further four-year period were extrapolated using projected sales and a growth rate of 0-6% for operating expenses.

Net sales 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 net sales have been based on expected 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 and engineered products industries, which are based on both external sources and internal sources (historical data). Material changes to these assumptions could cause the carrying amount of goodwill to exceed its net recoverable amount.

NOTE 8 OTHER ASSETS

In thousands of US dollars	Share purchase loan	Other	Total
Balance at January 1, 2018	997	452	1,449
Accrued interest	12	-	12
Interest paid	(11)	-	(11)
Repayment of loan	-	-	0
New loan issuances	392	-	392
Effect of movements in exchange rates	(106)	(6)	(112)
Balance at December 31, 2018	1,284	446	1,730
Less: current portion (note 4)	(734)	-	(734)
	550	446	996
Accrued interest	16	-	16
Interest received	(9)	-	(9)
Repayment of loan	(764)	-	(764)
New loan issuances (note 19)	364	-	364
Effect of movements in exchange rates	70	-	70
Balance at December 31, 2019	961	446	1,407

NOTE 9 DERIVATIVES NOT DESIGNATED IN A FORMAL HEDGING RELATIONSHIP

Foreign exchange hedge

At December 31, 2019, the Company had contracts to sell USD $19,715 from January 2020 to November 2020 for Canadian dollars ("CAD") $26,200. The fair value of these contracts, representing an unrealized gain of $457, are included in trade and other receivables, including derivatives on the statement of financial position. The unrealized changes in fair value, representing a gain of $1,254 (2018: loss of $1,049), are recorded on the statement of profit as other income (expense).

At December 31, 2018, the Company had contracts to sell USD $25,427 from January 2019 to October 2019 for CAD $33,601. The fair value of these contracts, representing an unrealized loss of $797 are included in trade and other payables, including derivatives on the statement of financial position.

Interest rate swap

In 2017, the Company entered into an interest rate swap agreement for a notional amount of $35,000 ($28,000 and $30,800 as at December 31, 2019 and December 31, 2018, respectively) amortizing down to $24,267 at maturity. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%. The swap agreement matures on December 10, 2020.

During 2019, the interest income of the swap agreement was $179 (2018: $77).

At December 31, 2019, the fair value of this agreement, representing a loss of $19 (2018: gain of $434), is included in loans and borrowings on the statement of financial position. The change in the fair value, representing a loss of $453 (2018: gain of $169), is recorded on the statement of profit as finance costs.

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

NOTE 10 LOANS AND BORROWINGS

December 31 *In thousands of US dollars*	**2019**	2018
Non-current		
Term debt	**56,250**	59,565
Lease liabilities	**12,953**	192
Less: deferred financing	**(417)**	(595)
	68,786	59,162
Current		
Term debt	**3,769**	3,750
Lease liabilities	**1,589**	44
	5,358	3,794

December 31 *In thousands of US dollars*	**2019**	2018
$75,000 term debt, bearing interest at LIBOR 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 in January 2021.	**60,019**	63,316
Lease liabilities	**14,542**	235
Subtotal	**74,561**	63,551
Less principal due within one year	**(5,358)**	(3,794)
	69,203	59,757
Less deferred financing	**(417)**	(595)
	68,786	59,162

The Company's current credit facilities are comprised of a $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), and an accordion feature of up to an additional $50,000 of availability, upon the satisfaction of customary conditions for such features. The revolving credit facility and term debt mature in January 2021.

In March 2019 the calculation of one of the loan covenants on the Company's credit facilities was amended on a prospective basis. In December 2019 the maturity of the credit facilities was extended from December 2020 to January 2021. In January 2020 the Company signed an amended and restated credit agreement in connection with the merger between AirBoss' defense business and Critical Solutions International, Inc. The amended and restated credit agreement matures in January 2023 and otherwise carries similar terms as the existing credit agreement.

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

The fees are being amortized over 5 years and $306 (2018: $307) has been amortized and is included in finance costs.

Interest expense on the term debt was $2,581 (2018: $2,630).

Principal repayments on the loans and borrowings are as follows:

In thousands of US dollars	Total	2020	2021	2022	2023	2024	Thereafter
Term debt and finance lease	60,019	3,769	56,250	-	-	-	-
Lease liabilities	14,542	1,589	1,634	1,328	1,358	1,345	7,288
	74,561	5,358	57,884	1,328	1,358	1,345	7,288

In 2019 and 2018, under the Company's current credit facilities, the revolving facility consisted of $30,000 US Revolving Credit facility and a $30,000 US equivalent Canadian Revolving Credit Facility. No amount was drawn against this facility as at December 31, 2019.

All obligations under the current credit facility and related loan documentation are secured by a first charge against all of the Company's present and after acquired property in favor of the lenders.

At December 31, 2019 the Company is not in default, nor has it breached any terms of the credit agreement relating to the current credit facilities.

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

	Carrying amount		Fair value	
In thousands of US dollars	**2019**	2018	**2019**	2018
Term debt	**59,602**	62,720	**60,027**	63,597
Lease liabilities	**14,542**	236	**14,927**	241

The fair value of current borrowings approximate 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 3.48% (2018: 4.21%) for the term loan and lease liabilities.

NOTE 11 PROVISIONS

In thousands of US dollars	Site restoration	Restricted stock units	Performance awards and Deferred stock units	Lease incentives	Total
Balance at January 1, 2018	74	1,202	366	239	1,881
Provisions accrued during the year	-	316	184	-	500
Payments during the year	-	(1,485)	-	-	(1,485)
Forfeitures during the year	-	-	(26)	-	(26)
Amortization during the year	-	-	-	(40)	(40)
Foreign exchange	-	(33)	(43)	-	(76)
Balance at December 31, 2018	74	-	481	199	754
Less amount due within one year	-	-	(120)	(54)	(174)
	74	-	361	145	580
Impact of change in accounting policy (see note 3)	-	-	-	(199)	(199)
Provisions accrued during the year	-	-	313	-	313
Payments during the year	-	-	(133)	-	(133)
Forfeitures during the year	-	-	(32)	-	(32)
Amortization during the year	-	-	-	-	-
Foreign exchange	-	-	26	-	26
Balance at December 31, 2019	74	-	655	-	729
Less amount due within one year	-	-	(103)	-	(103)
	74	-	552	-	626

Restricted Stock Units

Pursuant to the Omnibus Incentive Plan, the Company issued to certain executives an aggregate of 150,000 restricted stock units. Each restricted stock unit entitles the holder to receive on vesting, at the sole discretion of the Company, either one common share or a cash payment equal to the fair market value of a common share as of the vesting date. The restricted stock units vest three years following the grant date and have no performance requirements.

Restricted stock units	**2019**	2018
January 1	**-**	150,000
Exercised	**-**	(150,000)
December 31	**-**	-

During 2019 and 2018, no restricted stock units were issued or forfeited. During 2018,150,000 fully vested restricted stock units were exercised for $1,485 in cash. At December 31, 2019 the Company has recognized as employee costs of nil (2018: $316) related to the plan.

Performance Awards

The Company has issued certain executives with an aggregate of 83,998 performance awards pursuant to the terms and conditions of the Omnibus Plan. Each performance award entitles the holder to receive on vesting a cash payment equal to the product of (a) the fair market value of a common share as of the vesting date and (b) a performance factor between 0.5 and 2.0, based on the level of achievement of predetermined performance objectives over the vesting period generally. The performance awards vest three years following the grant date.

Performance stock units	**2019**	2018
January 1	**114,908**	93,333
New issuances	**26,643**	29,933
Forfeitures	**(14,563)**	(8,358)
Settlements	**(42,990)**	-
December 31	**83,998**	114,908

During 2019, the Company recognized as employee costs $74 (2018: $87) related to the plan.

Deferred Stock Units

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

Deferred stock units	**2019**	2018
January 1	**43,088**	30,005
New issuances	**29,584**	13,083
December 31	**72,672**	43,088

During 2019, the Company recognized as employee costs $207 (2018: $71) related to DSUs issued under the Omnibus Plan.

NOTE 12 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.

Under the Omnibus plan, a maximum of 10% of issued and outstanding shares are available for issuance under any type of share-based compensation plan. As at December 31, 2019, 1,744,370 shares are available (2018: 1,661,976).

Issued share capital is as follows:

In thousands of shares	**2019**	2018
January 1	**23,392**	23,091
Exercise of share options	**-**	342
Share repurchase	**-**	(41)
December 31	**23,392**	23,392

Issuance of common shares

During 2019, nil options were exercised (2018: 495,000 options exercised resulting in the issuance of 341,949 common shares).

In November 2019, the Company renewed its normal course issuer bid ("NCIB") to purchase up to 500,000 of its common shares, representing approximately 4% of the Company's public float. The Company purchased nil shares (2018: 40,620) under its NCIB in 2019.

Capital and other components of equity

Contributed surplus

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

Stock Options

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, 2019, are as follows:

Range of exercise price ($CAD)	**Options outstanding Quantity**	**Weighted average contract life**	**Options exercisable Quantity**
9.49	197,261	4.41	-
10.98	33,200	2.86	16,600
11.56	23,092	3.22	5,773
12.26	37,524	2.22	18,762
15.40	50,000	0.25	50,000
16.69	82,127	1.25	61,595
17.86	15,000	1.00	15,000
	438,204		167,730

Options granted and outstanding:

A summary of the status of the Company's stock option plan as of December 31, 2019 and 2018 and changes during the years then ended, is presented below:

	2019		2018	
	Quantity	**Weighted average exercise price ($CAD)**	Quantity	Weighted average exercise price ($CAD)
Outstanding beginning of year	**519,272**	**13.25**	988,710	9.86
Granted	**197,261**	**9.49**	38,109	11.56
Exercised	**-**	**-**	(495,000)	6.35
Forfeited	**(278,329)**	**12.14**	(12,547)	13.31
Outstanding end of year	**438,204**	**12.26**	519,272	13.25

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

In Canadian dollars	**May 2019**	March 2018
Fair value at grant date	**$ 2.04**	$ 3.11
Share price at grant date	**$ 9.58**	$ 12.08
Exercise price	**$ 9.49**	$ 11.56
Expected volatility (weighted average volatility)	**30.7%**	31.8%
Option life (expected weighted average life)	**5 years**	5 years
Expected annual dividend rate	**2.9%**	2.3%
Risk-free interest rate (based on government bonds)	**1.5%**	2.1%

The stock options issued vest as follows:

	Quantity
Vested at December 31, 2019	167,730
2020	93,301
2021	72,769
2022	55,088
2023	49,316
	438,204

Stock option expense

During 2019, the Company recognized as employee costs $105 (2018: $194) 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 2019 and in 2018 as follows:

	2019		2018	
Shareholder of record at:	**$CAD/share**	**Date Paid**	$CAD/share	Date Paid
March 31	**0.07**	**April 15, 2019**	0.07	April 16, 2018
June 30	**0.07**	**July 15, 2019**	0.07	July 16, 2018
September 30	**0.07**	**October 15, 2019**	0.07	October 15, 2018
December 31	**0.07**	**January 15, 2020**	0.07	January 15, 2019
	0.28		0.28	

The dividend payable at December 31, 2019 was $1,261 (2018: $1,200).

NOTE 13 EARNINGS PER SHARE

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

December 31 *In thousands of US dollars except per share amounts*	**2019**	2018
Numerator for basic and diluted earnings per share:		
Net income	**10,219**	8,536
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	**23,392**	23,345
Dilution effect of stock options	**-**	6
Dilution of effect of deferred stock units	**53**	32
Diluted weighted average number of shares outstanding	**23,445**	23,383
Net income per share:		
Basic	**0.44**	0.37
Diluted	**0.44**	0.37

As of December 31, 2019, 438,204 options (2018: 214,387) 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 14 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:

December 31 *In thousands of US dollars*	**2019**	2018
Combined federal and provincial statutory income tax	**3,852**	3,124
Foreign tax differential	**456**	179
Effect of permanent differences	**(286)**	(110)
Change in tax rates and new legislation	**26**	22
Difference arising on filing and assessments	**(100)**	119
Deductible temporary differences not recognized	**667**	-
Other	**(299)**	(82)
Total expense	**4,316**	3,252
The components of the provision for income taxes are as follows:		
Current	**6,272**	3,014
Deferred	**(1,956)**	238
Total	**4,316**	3,252

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

December 31 *In thousands of US dollars*	**2019**	2018
Deferred income tax assets:		
Non-capital income tax loss carry-forwards	**4,327**	2,116
Deferred income tax deductions relating to long-term liabilities	**150**	126
Equity Compensation	**164**	175
Alternative minimum tax	**49**	97
Capital assets	**138**	156
Other	**541**	242
	5,369	2,912
Deferred income tax liabilities:		
Deferred income tax deductions relating to long-term liabilities	**-**	(6)
Financing fees	**(64)**	(70)
Capital assets	**(8,418)**	(8,136)
	(8,482)	(8,212)
Net deferred income tax liabilities	**(3,113)**	(5,300)
Recorded on the consolidated statement of financial position as follows:		
Deferred income tax assets	**846**	-
Deferred income tax liabilities	**(3,959)**	(5,300)
Net deferred income tax liabilities	**(3,113)**	(5,300)

In assessing the recognition 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 future 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 $29,147 of unused tax losses (2018: $13,708) available to offset future income taxes in the US and has recognized a related net deferred income tax asset of $846. Losses incurred prior to 2018 were set to expire starting 2037, while losses incurred in 2018 and after can be carried forward indefinitely.

The aggregate amount of deductible temporary differences associated with investments in subsidiaries, branches and associated and interests in joint ventures, for which no deferred income tax assets have been recognized, is $28,553 (2018: taxable temporary differences of $43,687).

Deferred tax assets have not been recognized in respect of the following items, because it is not probable that future taxable profit will be available against which the Company can use the benefits therefrom.

December 31	**2019**		2018	
In thousands of US dollars	**Gross amount**	**Tax effect**	Gross amount	Tax effect
Capital losses	**918**	**142**	648	81
Operating losses	**980**	**229**	-	-
	1,898	**371**	648	81

NOTE 15 GOVERNMENT ASSISTANCE

During 2019, Rubber Solutions recognized grants of $118 (2018: $135). Engineered Products did not recognize grants in 2019 or 2018.

Scientific research and investment tax credits of $537 were recognized in 2019 (2018: $780); research and development costs were reduced accordingly. No reduction to capital assets was recognized in respect of provincial tax credits (2018: nil).

NOTE 16 COMMITMENTS AND CONTINGENCIES

Commitments

The Company has purchase commitments of $10,770 for raw materials. Delivery on these commitments is expected in 2020.

Litigation

No legal provisions are recognized at December 31, 2019 and 2018.

NOTE 17 POST RETIREMENT BENEFITS

The Company provides post retirement life insurance benefits to eligible retirees (“Benefit Plan”). The post-retirement life insurance benefits under the 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 $18. This plan is unfunded as such there is no plan asset to be disclosed. At December 31, 2019, the weighted average duration of the defined benefit obligation was 12 years (2018: 12 years).

The Benefit Plan exposes the Company to actuarial risks, such as interest rate risk and longevity risk.

December 31 *In thousands of US dollars*	**2019**	2018
Statement of Financial Position obligations for Benefit Plan	**510**	474
Statement of Profit charge for Benefit Plan	**43**	(78)

December 31 *In thousands of US dollars*	**2019**	2018
Present value of unfunded obligation and Liability in the Statement of Financial Position	**510**	474
Movement in the defined benefit obligation is as follows:		
At January 1	**474**	560
Current service cost	**2**	2
Interest cost	**17**	17
Benefit payment	**(41)**	(45)
Actuarial loss (gain)	**34**	(17)
Foreign currency translation	**24**	(43)
	510	474
At December 31		
The amounts recognized in the income statement are as follows:		
Post-retirement benefits expense	**2**	(52)
Interest cost	**17**	17
Foreign currency translation	**24**	(43)
Expense (recovery)	**43**	(78)

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

December 31 *In thousands of US dollars*	**2019**	2018
The principal actuarial valuation assumptions used were as follows:		
Discount rate	**3.00%**	3.60%
Mortality	**CPM mortality table projected with scale MI-2017 for the private sector**	CPM mortality table projected with scale MI-2017 for the private sector
Retirement age: Percentage of members with spouses at retirement	**N/A**	N/A

The sensitivity of the 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.

Fiscal Year ending December 31	2019	2018
Effect of an increase of 1%		
Post-employment benefit obligation	**(56)**	(48)
Effect of a decrease in 1%		
Post-employment benefit obligation	**70**	60
Mortality Sensitivity Analysis		
Effect of an increase of 10% on mortality rates		
Post-employment benefit obligation	**1**	5
Effect of a decrease of 10% on mortality rates		
Post-employment benefit obligation	**(1)**	(6)

Defined Contribution Plan

AirBoss Flexible Products Co. ("Flexible") maintains a 401(k) defined contribution plan for its employees. Total contributions and expense to this plan during 2019 were $430 (2018: $362).

Immediate Response Technologies, LLC maintains a 401(k) defined contribution plan for its employees. Total contributions and expense to this plan during 2019 were $90 (2018: $88).

AirBoss Rubber Compounding (NC) Inc. maintains a 401(k) plan for its employees. Total contributions and expense to this plan during 2019 were $69 (2018: $45).

AirBoss of America Corp. maintains a registered retirement savings plan defined contribution plan for all of their employees. Total contribution and expense to this plan for 2019 were $341 (2018: $281).

AirBoss Engineered Products Inc. employees are covered under various registered and unregistered defined contribution plans. Total contribution and expense to these plans for 2019 were $179 (2018: $159).

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:

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

During 2019, the Company made contributions of $273 (2018: $284) to the multi-employer pension plan. The unfunded vested benefit ratio was 17.0% at December 31, 2019 (2018: 8.2%). The Steel Workers Pension Trust was in a net deficit at December 31, 2019 and the Company's portion of the deficit was unknown. The collective bargaining agreement requires that the Company contributes $0.40 for each hour worked by eligible employees during the preceding wage month.

NOTE 18 SEGMENTED INFORMATION

The Company has two reportable segments, as described below, which are the Company'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 Company's CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Company's reportable segments:

- Rubber Solutions. Includes manufacturing and distribution of rubber compounds and distribution of rubber compounding related chemicals.
- Engineered Products. Includes the manufacture and distribution of personal protection and safety products primarily for CBRN hazards and semi-finished rubber related products, and 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 Company's CEO/Chairman and President. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Transfer pricing is based on third-party rates.

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 Solutions		Engineered Products		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Segment net sales	**196,802**	184,065	**180,987**	172,077	**-**	-	**377,789**	356,142
Inter-segment net sales	**(48,220)**	(38,801)	**(1,443)**	(738)	**-**	-	**(49,663)**	(39,539)
External net sales	**148,582**	145,264	**179,544**	171,339	**-**	-	**328,126**	316,603
Depreciation, amortization, and impairment	**6,459**	5,186	**7,075**	5,710	**182**	70	**13,716**	10,966
Finance cost	**4,356**	4,583	**388**	3	**(913)**	(1,665)	**3,831**	2,921
Reportable segment profit (loss) before income tax	**13,158**	9,910	**4,290**	5,723	**(2,913)**	(3,845)	**14,535**	11,788
Income tax expense (recovery)	**4,847**	5,126	**879**	1,457	**(1,410)**	(3,331)	**4,316**	3,252
Net Income	**8,311**	4,784	**3,411**	4,266	**(1,503)**	(514)	**10,219**	8,536
Reportable segment assets	**99,107**	97,263	**146,310**	122,395	**4,247**	12,870	**249,664**	232,528
Reportable segment liabilities	**29,452**	26,802	**29,575**	15,902	**64,658**	68,341	**123,685**	111,045
Capital additions	**13,093**	4,693	**12,284**	3,553	**1,323**	230	**26,700**	8,476

Geographical segments

The Rubber Solutions and Engineered Products 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 net sales are 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.

For the year ended December 31 *In thousands of US dollars*	**2019** Net sales	**2019** Non-current assets	2018 Net sales	2018 Non-current assets
Canada	**62,522**	**48,429**	47,209	44,314
United States	**235,898**	**83,082**	227,311	66,559
Other countries	**29,706**	**-**	42,083	-
	328,126	**131,511**	316,603	110,873

Major customers

Net sales from one customer represent approximately 9% (2018: 8%) of consolidated net sales in 2019. Five customers represented 31% (2018: 33%) of consolidated net sales in 2019.

Major Products

In thousands of US dollars	**2019**	2018
Rubber Solutions		
Tolling	**9,729**	7,484
Industrial	**28,383**	30,945
Mixing	**110,470**	106,835
	148,582	145,264
Engineered Products		
Anti-vibration	**124,887**	129,348
Defense	**54,657**	41,991
	179,544	171,339
	328,126	316,603

NOTE 19 RELATED PARTIES

Related Party Transactions

During the year, the Company paid rent for the corporate office of CAD $180 (2018: CAD $180) to a company controlled by the CEO and Chairman of the Company.

During the year, the Company paid fees for the use of a facility in South Carolina of approximately $28 (2018: $26) to a company in which the CEO and Chairman is an officer.

Transactions with key management personnel

Key management includes directors, CEO, President, COO, CFO, and senior management. The compensation expense to key management for employee services is shown below:

December 31 *In thousands of US dollars*	**2019**	2018
Salaries and other short term benefits	**4,154**	3,378
Share-based payment expense	**352**	633
	4,506	4,011

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 own 26.3% of the outstanding common shares as at December 31, 2019 (2018: 26.4%).

During 2014, the Company provided a share purchase loan of CAD $1,000 to the Vice-Chair to purchase common shares of the Company that was repaid in November 2019. In December 2016, the Company provided a share purchase loan of CAD $250 to the Chief Financial Officer. In March 2018, the Company provided a share purchase loan of CAD $500 to the President and Chief Operating Officer. On June 28, 2019, the Company provided share purchase loans of CAD $300 to the Executive Vice President, Corporate and General Counsel; CAD $92 to the President and Chief Operating Officer; and CAD $100 to the Vice President Human Resources. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or the fifth anniversary of the issuance date. All share purchase loans issued prior to 2019 bear interest at 1% annually and all subsequent loans share purchase loans bear interest at 2% annually. In all cases, loans are full recourse and interest is due and payable semi-annually. In total, 120,185 shares of the Company having a fair value of $812 were pledged as collateral on these loans. At December 31, 2019, the loan receivables of $961, including accrued interest of $5, were included in other assets. During the year, interest of $9 (2018: $11) was paid.

NOTE 20 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"), steel 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, generally 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:

	Earnings before tax	
$Millions	**2019**	2018
Natural and synthetic rubber	**(3.38)**	(2.98)
Steel	**(3.24)**	(3.00)
Carbon black	**(1.84)**	(1.71)
EPDM	**(0.42)**	(0.34)
Silicone	**(0.86)**	(0.82)
	(9.74)	(8.85)

A 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 net sales 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 Solution segment's profit and loss is somewhat naturally hedged in that sales denominated in US dollars offset US dollar expenses and debt service costs.

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:

	Earnings before tax	
$Millions	**2019**	2018
Sales (1)	**(2.4)**	(2.9)
Purchases (2)	**6.8**	6.1

(1) Based upon Canadian dollar-denominated sales
(2) Based upon Canadian dollar-denominated debt repayments, 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. Canadian dollar borrowings are on a fixed rate basis. The US dollar borrowings are on a variable rate basis. The Company has no formal policy to manage a certain proportion of borrowings on a fixed rate basis.

In 2017, the Company entered into an interest rate swap agreement for a notional amount of $35,000 ($28,000 and $30,800 as at December 31, 2019 and December 31, 2018, respectively) amortizing down to $24,267 at maturity. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%. The swap agreement matures on December 10, 2020.

During 2019, the interest income of the swap agreement was $179 (2018: $77).

At December 31, 2019, the fair value of this agreement, representing a loss of $19 (2018: gain of $434), is included in loans and borrowings on the statement of financial position. The change in the fair value, representing a loss of $453 (2018: gain of $169), is recorded on the statement of profit as finance costs.

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

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

December 31 *In thousands of US dollars*	**2019**	2018
Fixed rate instruments		
Financial assets	**1,418**	1,284
Financial liabilities	**(14,542)**	(235)
Variable rate instruments		
Financial liabilities	**(60,000)**	(63,750)
Total	**(73,124)**	(62,701)

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:

	Net income and equity	
In thousands of US dollars	100bp increase	100bp decrease
2019		
Variable rate instruments	**(213)**	**213**
2018		
Variable rate instruments	(191)	191

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

Credit Risk

The Company held cash and cash equivalents of $121 at December 31, 2019 (2018: $17,862), 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 (see note 4), 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. Net sales from one customer represent approximately 9% (2018: 8%) of consolidated net sales in 2019. Five customers represented 31% (2018: 33%) of consolidated net sales in 2019.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. At year end, the Company had cash of $121 and unused revolving credit facilities of $60,000 (2018: cash of $17,862 and unused facility of $60,000).

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, 2019

In thousands of US dollars	**Amortized cost**	**Fair value through profit and loss**	**Total carrying amount**	**Total fair value**
Cash and cash equivalents	121	-	121	121
Trade and other accounts receivable	68,890	-	68,890	68,890
Share Purchase loans	961	-	961	961
Total financial assets	69,972	-	69,972	69,972
Trade and other payables	44,047	-	44,047	44,047
Interest rate swap	-	19	19	19
Foreign Exchange Hedge	-	(457)	(457)	(457)
Loans and borrowings	74,125	-	74,125	75,215
Total financial liabilities	118,172	(438)	117,734	118,824

December 31, 2018

In thousands of US dollars	**Amortized cost**	**Fair value through profit and loss**	**Total carrying amount**	**Total fair value**
Cash and cash equivalents	17,862	-	17,862	17,862
Trade and other accounts receivable	56,346	-	56,346	56,346
Share Purchase loans	1,284	-	1,284	1,284
Total financial assets	75,492	-	75,492	75,492
Trade and other payables	40,764	-	40,764	40,764
Interest rate swap	-	(434)	(434)	(434)
Foreign Exchange Hedge	-	797	797	797
Loans and borrowings	63,390	-	63,390	63,838
Total financial liabilities	104,154	363	104,517	104,965

The fair value of the share purchase loans and long-term loan has been based on market interest rate (level 2) in 2019 and 2018. The Company 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 2019 and 2018. There were no transfers between levels of the fair value hierarchy in 2019 and 2018.

Capital Management

The Company has defined its capital as follows:

December 31 *In thousands of US dollars*	**2019**	2018
Cash and cash equivalents	**(121)**	(17,862)
Term loan and other debt	**74,144**	62,956
Net debt	**74,023**	45,094
Shareholders' equity	**125,979**	121,483
	200,002	166,577

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.

Key management currently own 26.3% of the outstanding shares of the Company. Each director is required to hold shares having a value equal to three times their annual retainer fee 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.

In November 2019, the Company renewed its normal course issuer bid ("NCIB") to purchase up to 500,000 of its common shares, representing approximately 4% of the Company's public float. The Company purchased nil shares (2018: 40,620) under its NCIB in 2019.

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

NOTE 21 LEASES

The Company leases some of its plants, offices, and equipment. The majority of the Company's leases are for building, which have a remaining terms between 2 and 9 years.

Right-of-Use Assets

In thousands of US dollars	Land and buildings	Furniture and equipment	Total
Cost			
Balance at January 1, 2019	7,020	467	7,487
Lease additions	-	714	714
Lease extensions	6,505	-	6,505
Balance at December 31, 2019	13,525	1,181	14,706
Accumulated depreciation			
Balance at January 1, 2019	-	-	-
Depreciation	1,310	161	1,471
Balance at December 31, 2019	1,310	161	1,471
Carrying amount at December 31, 2019	12,215	1,020	13,235

Under IAS 17, as at December 31, 2018, the carrying amount of finance lease assets of $243 was presented in fixed assets in note 6.

Lease Liabilities

In thousands of US dollars	Total
Cost	
Balance at January 1, 2019	8,867
Lease additions	714
Lease extensions	6,505
Lease payments	(2,063)
Interest expense on lease liabilities	449
Foreign currency translation	70
Balance at December 31, 2019	14,542
Accumulated depreciation	
Lease liabilities due within one year	1,589
Lease liabilities	12,953
Balance at December 31, 2019	14,542

Under IAS 17, as at December 31, 2018, finance lease obligations of $235 were presented in long term debt due within one year and long-term debt in note 10.

Liquidity

The future undiscounted contractual lease payments are as follows:

In thousands of US dollars	**Total**	**2020**	**2021**	**2022**	**2023**	**2024**	**Thereafter**
Lease payments	17,648	2,254	2,222	1,844	1,808	1,731	7,789

Future Finance Lease payments Under IAS 17

As at December 31, 2018, the undiscounted future finance lease payments and future finance charges were $235 and $31, respectively.

Future Operating Lease payments Under IAS 17

As at December 31, 2018, the undiscounted future minimum lease payments were $9,683. During 2018, the Company recognized $1,783 of operating lease rent expense.

NOTE 22 SUBSEQUENT EVENTS

On January 1, 2020, the Company formed AirBoss Defense Group ("ADG") through the merger of its AirBoss Defense business and other operations in Acton Vale, Quebec with Critical Solutions International, Inc. ("CSI"). CSI is a privately-owned U.S.-based company and is the leading global supplier of route clearance vehicles; countermine capability and survivability products to U.S. and foreign military forces. The Company contributed the shares of AirBoss Engineered Products Inc. and the membership interests of Immediate Response Technologies, LLC to newly formed Canadian and U.S. entities that will form, along with the shares of CSI, ADG. AirBoss received 55% of the equity in ADG and US$60 million vendor takeback note payable by ADG. CSI's former owner received 45% of the equity interest in ADG.

NOTE 23 RECLASSIFICATION OF COMPARATIVE AMOUNTS

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

Corporate Information

Board of Directors

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

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

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

Anita Antenucci
Upperville, Virginia

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

David Camilleri
Waterloo, Ontario

Alan J. D. Watson (2) (3)
Sydney, Australia

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

Corporate Information

Solicitors

Davies Ward Phillips & Vineberg 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
Email Address: info@airbossofamerica.com

Our Annual Meeting is Thursday, May 14, 2020
at 4:30pm at AirBoss Rubber Solutions' offices
located at 101 Glasgow Street, Kitchener, Ontario

CORPORATE OFFICE

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

President and Chief Operating Officer:
Chris Bitsakakis

Chief Financial Officer:
Daniel Gagnon

Executive Vice President & General Counsel, Corp:
Chris Figel

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