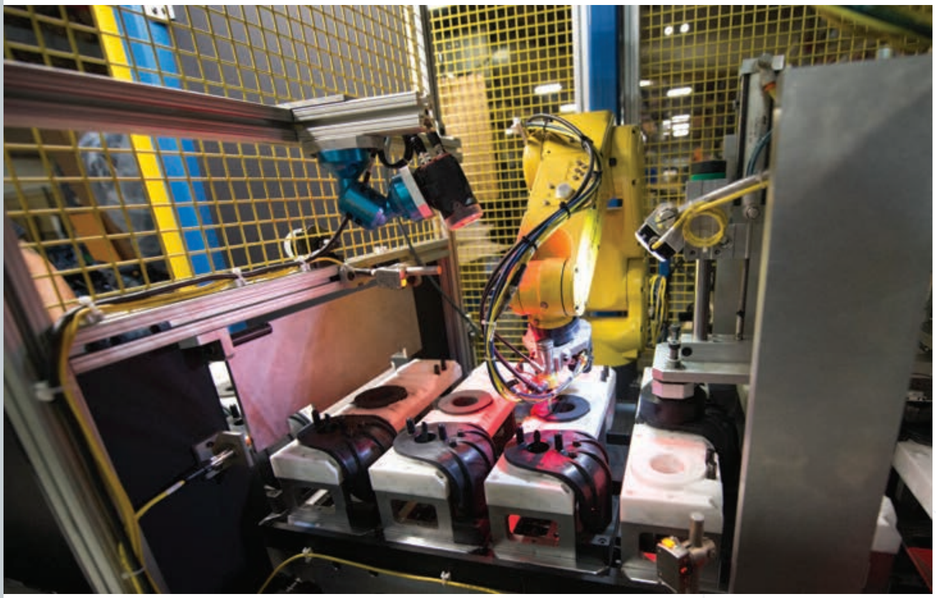
AirBoss® of America Corp.

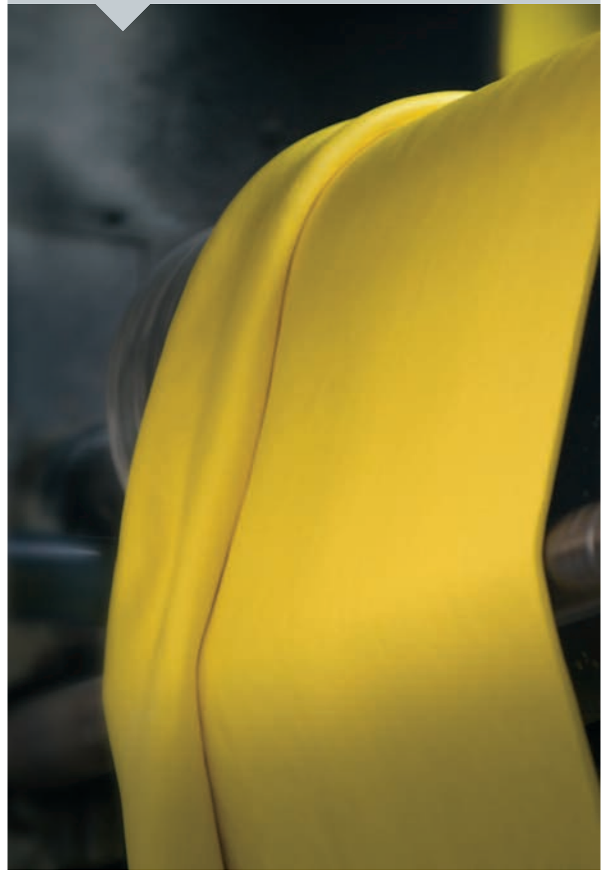


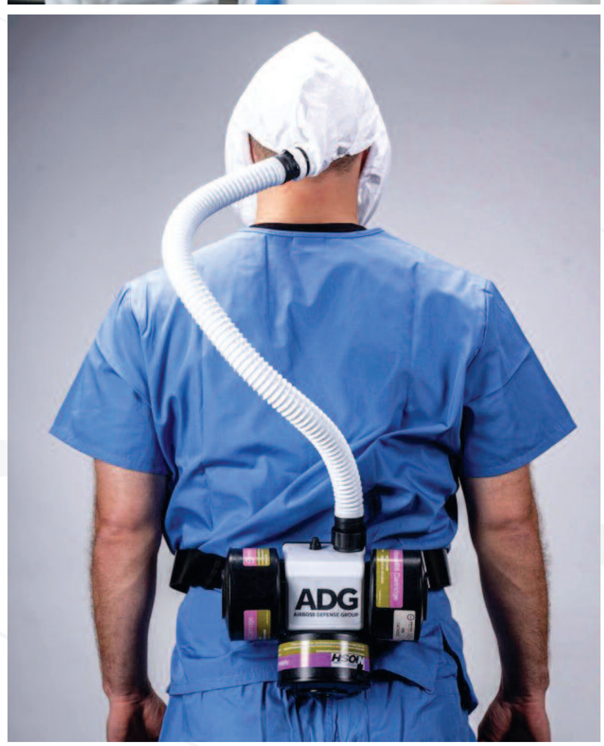


Innovation and Diversification

Driving Growth

2020 ANNUAL REPORT





$288M

Initial portion of U.S. government contract awarded in 2021 for **nitrile rubber patient exam gloves**, with potential contract value up to $576M

$220M

Healthcare contracts awarded in 2020 by U.S. government agencies for **Powered Air Purifying Respirator (PAPR) Systems**

TABLE OF CONTENTS

At a **Glance**

In 2020, even in the face of the global challenges presented by COVID-19, AirBoss generated record financial performance following closing of the transaction to merge its defense business with Critical Solutions International, Inc. creating AirBoss Defense Group.

‘20 HIGHLIGHTS

Generated record net sales, EBITDA and EPS;

Increased cash balance by $87 million and ended the year in a net cash position;

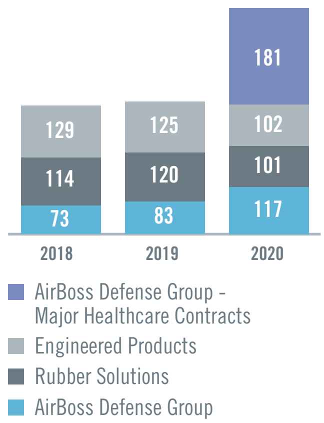
Achieved step change in scale of operations and widened aperture of opportunity for healthcare and defense business through the creation of AirBoss Defense Group ("ADG"). Obtained:

- In 2020, PAPR system contracts with FEMA, HHS, and the VA in the U.S. valued at nearly $220 million
- In Q1 2021, contract for nitrile rubber patient examination gloves from HHS valued at up to $576 million

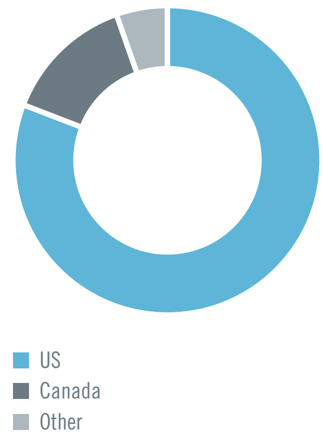
Appointed Frank Ientile to the role of Chief Financial Officer; and

Welcomed Stephen M. Ryan to the board of directors, 3rd new director added to the Board over last 20 months

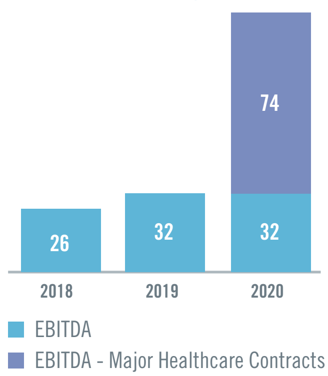
REVENUES $M



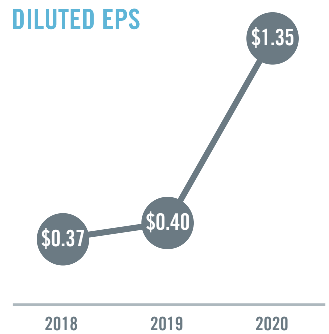
REVENUES BY GEOGRAPHY 2020



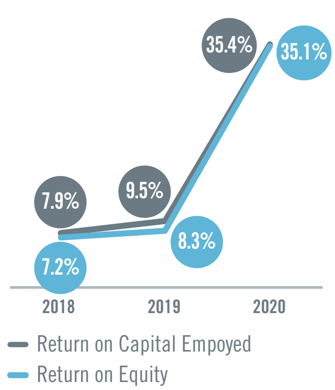
ADJUSTED EBITDA $M



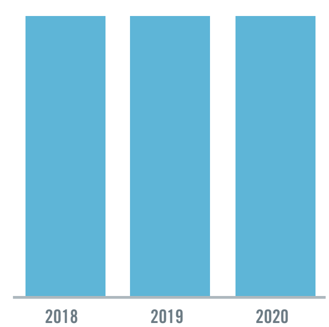
DILUTED EPS



RETURNS



DIVIDENDS $ (C$0.28 PER SHARE)



Message to Shareholders

2020 presented businesses, governments and communities globally with significant challenges. Throughout our 30-year plus year operating history AirBoss has prioritized innovation and diversification across and within individual operating segments, to focus on products in which we have competitive advantages, increase our ownership of the value chain where and when appropriate, and act as a natural hedge against economic and industry cycles. This approach was the basis for our creation of AirBoss Defense Group at the beginning of 2020, which not only resulted in a step change in the scale of AirBoss but enabled us to capitalize on the unique set of opportunities presented in the last 12 months, and produce the strongest financial performance in our history.

This success is a credit to the enormous contributions of our employees who in the face of the COVID-19 pandemic kept our essential segments operating, helped our customers succeed, supported our ongoing investment in innovation and met surging demand for our suite of survivability solutions. We simply could not have accomplished all we did in 2020 without their extraordinary efforts.

Solidifying the Survivability Platform

We started the year on a positive note, completing the transaction that created AirBoss Defense Group ("ADG") through the combination of our existing defense business with that of Critical Solutions International, Inc. ("CSI"), with us owning 55%. Early in 2020, we received strong confirmation of the expected synergies between AirBoss' suite of products and CSI's strong marketing capabilities, receiving a $96 million order for PAPRs from the Federal Emergency Management Agency in the U.S. The entire AirBoss team across all groups and divisions was mobilized to quickly ramp up and get this desperately needed protective equipment to those who needed it most - frontline medical personnel. We completed the contract on time and on budget, and by the last week we were manufacturing approximately 10,000 PAPRs and 100,000 filters per week across multiple U.S. facilities. Recognizing our unmatched domestic manufacturing capacity, we received in July a $121 million order for PAPRs and related peripherals from the Department of Health and Human Services ("HHS"), the largest contract in our history to that point. We are on track to complete this contract, on time and on budget, in April 2021.

Based on the growing strength of the broader survivability platform and its near- and longer-term potential, we elected to purchase the remaining 45% minority interest in ADG in the fourth quarter so that we would fully benefit from its greater contribution in the year ahead and beyond. This decision has proved prescient.

Although AirBoss has a long history of successfully delivering against multi-year U.S. and international government contracts, we have now established a reputation for being able to deliver large volumes of critical products against highly compressed timeframes. Reinforcing our status as a trusted supplier to the U.S. government through the FEMA and HHS contracts played a critical role in helping us to secure a contract for nitrile patient examination gloves from the HHS valued at up to $576 million, which we announced in the first quarter of 2021.

In addition to our growing solutions for healthcare, we continue to advance and develop a number of next-generation technologies, including the BlastGauge® blast overpressure measurement system, which we expect to contribute to growth over the mid- and longer-term. In the first quarter of 2021, we announced our intention to acquire 100% of BlackBox Biometrics, the developer of the BlastGauge® System. Additionally, we continue to improve our latest generation low burden gas mask. The gas mask won recent contract awards for Australia and Canada and won the technical competition for European NATO countries though was edged out on pricing. We are working on lowering costs in preparation for a potential upcoming U.S. competition, which could be worth more than $1 billion over an extended timeline, and potential for supply to other European countries.

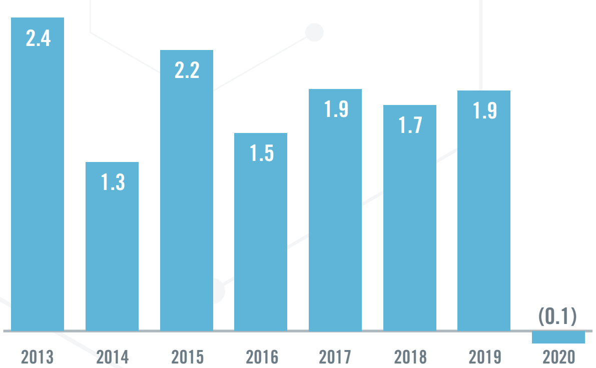
Rubber Solutions Poised to Return to Growth

In 2019, we invested heavily in the AirBoss Rubber Solutions ("ARS") segment, adding new mixing lines and inaugurating a new, state-of-the-art technical centre. We expect these investments to pay off down the road as our core priority for the business remains growing our capabilities in higher margin, specialty compounds that address a broader array of customer needs beyond our traditional strength in black rubber. Although COVID-19 impacted overall volumes in 2020, we saw volumes recover close to pre-pandemic levels by the end of the year. As the pandemic recedes and broader business conditions stabilize, we anticipate being able to return to steadily growing volumes over the mid- and longer-term as we continue to take market share and roll out new specialty compounds.

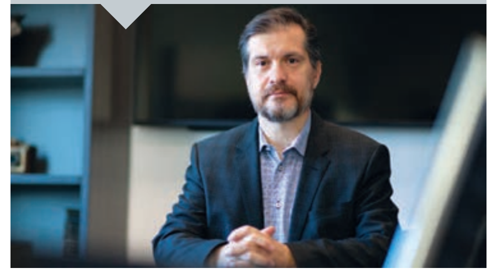
Diversifying Engineered Products for the Future

Our AirBoss Engineered Products ("AEP") business likewise faced challenges in the face of COVID-19 as automakers and Tier 1 parts suppliers elected to temporarily shutter operations during the second quarter of the year. Despite these challenges we were able to rapidly pivot, certifying AEP to help fulfill the large PAPR awards we received, in addition to helping produce other molded rubber defense products. Our traditional focus on light trucks, SUV's and minivans helped our work volumes recover ahead of industry levels once key customers re-started their operations mid-year. The robotic work cell we sourced in 2019 and installed and tested in the first half of the year was in full production in the third quarter of 2020. This investment in advanced manufacturing is expected to allow us to drive improved margins as we automate the production of more commoditized products and we are sourcing a second system. The expanded AEP team also continues to execute on our strategy to identify new anti-noise vibration and harshness opportunities in the recreational and light and heavy commercial vehicle markets, and other non-automotive markets. In 2020, we saw some initial progress on this initiative with approximately 10% of net sales coming from non-automotive sources.

NET LEVERAGE*



*Net debt less lease liabilities as at Dec. 31 / LTM EBITDA



Significant Financial Flexibility to Grow

Our record financial performance in 2020 means we exited the fiscal year with our strongest balance sheet in years and a net cash position. Going forward, we expect this will offer us significant flexibility to grow through a combination of organic initiatives and acquisitions. This includes adding new solutions for the healthcare and military markets to our growing survivability platform, developing or acquiring specialty rubber compounds and/or mixing capabilities and further diversifying our engineered products beyond the automotive sector. In combination, we expect these initiatives to deliver repeatable, long-term growth.

Seeking Out Sustainability

In recent years we have begun to increasingly focus on the sustainability of our business, assessing our environmental footprint, social license and initiatives and our approach to governance. We believe each of these elements are increasingly important to a growing range of stakeholders including suppliers, customers, investors and employees. Given the steadily growing emphasis on each of these areas, we have taken the preliminary step of identifying benchmarks and mapping out a formal environmental, social and governance (ESG) strategy to guide us in the years ahead. We look forward to updating all stakeholders as we embark on this next phase of our growth as an organization.

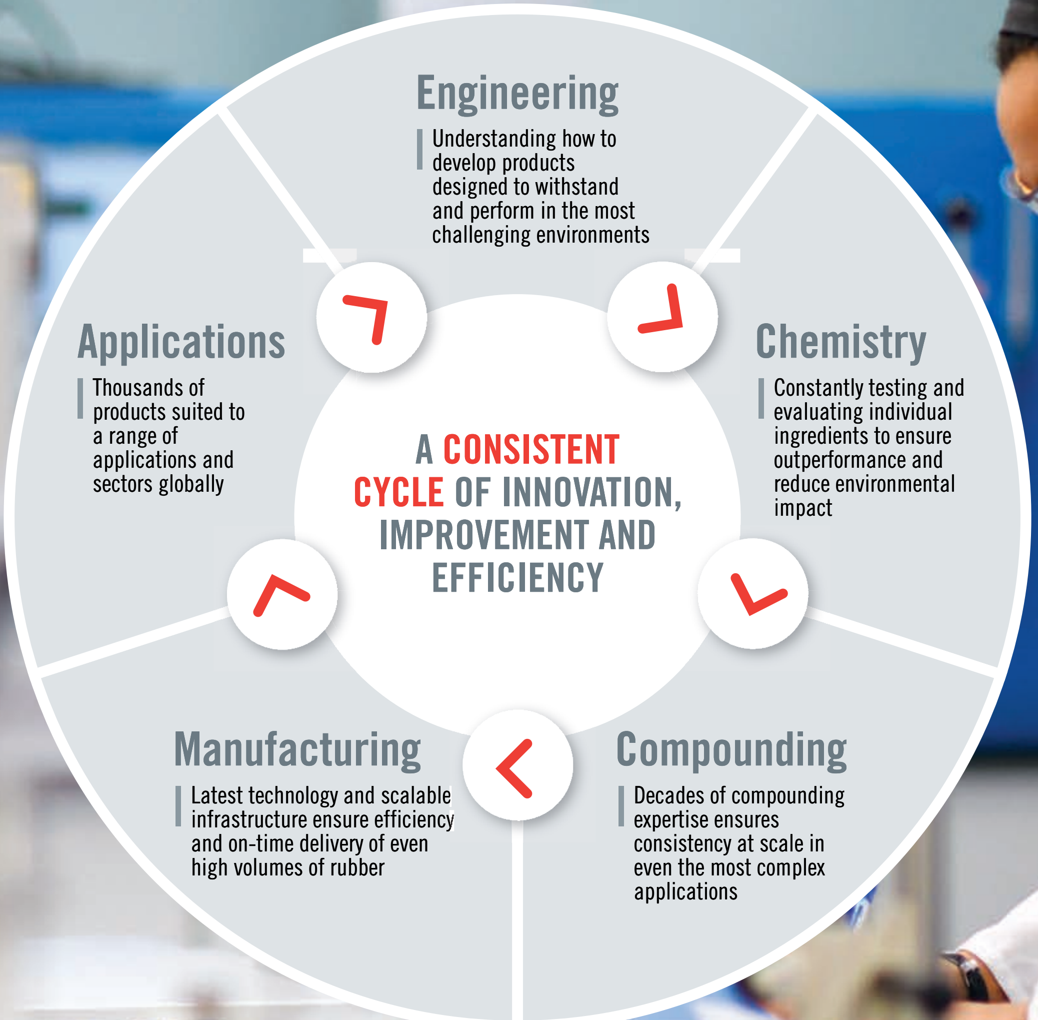
Well Positioned to Advance

In closing, we want to thank our employees for their hard work and dedication during a difficult and uncertain time. We also want to recognize our customers and suppliers; we are emerging stronger knowing what we can accomplish in partnership. We also want to acknowledge the wise counsel of our new and existing board members, who have helped shape our overall strategy. Our investments in innovation and diversification over the last few years are paying increasing dividends. Despite the challenges we faced in 2020, we have moved into 2021 at a significantly greater scale, on a stronger financial footing with a clear vision to drive continued future growth. We look forward to reporting on our progress in the year ahead and beyond.

P.G. Schoch
Chairman and CEO

Chris Bitsakakis
President and COO

AirBoss of America Corp.



Expertise, Innovation and Diversification is Building a Global Leader

A commitment to **innovation, diversification** and **vertical integration** have enabled AirBoss to consistently outperform the industry.

KEY COMPETITIVE ADVANTAGES

Innovation
State-of-the-art technical/R&D centre supports development of next-generation compounds addressing increasingly complex customer requirements

Scale
500 million turn pounds of annual capacity spanning 2,000+ black, white/coloured and speciality compounds

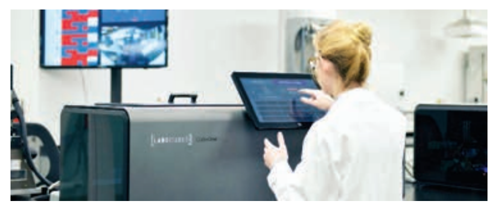
Vertically Integrated
Single customer contact from design to distribution

Quality
Decades of compounding expertise supported by a dedicated quality control laboratory

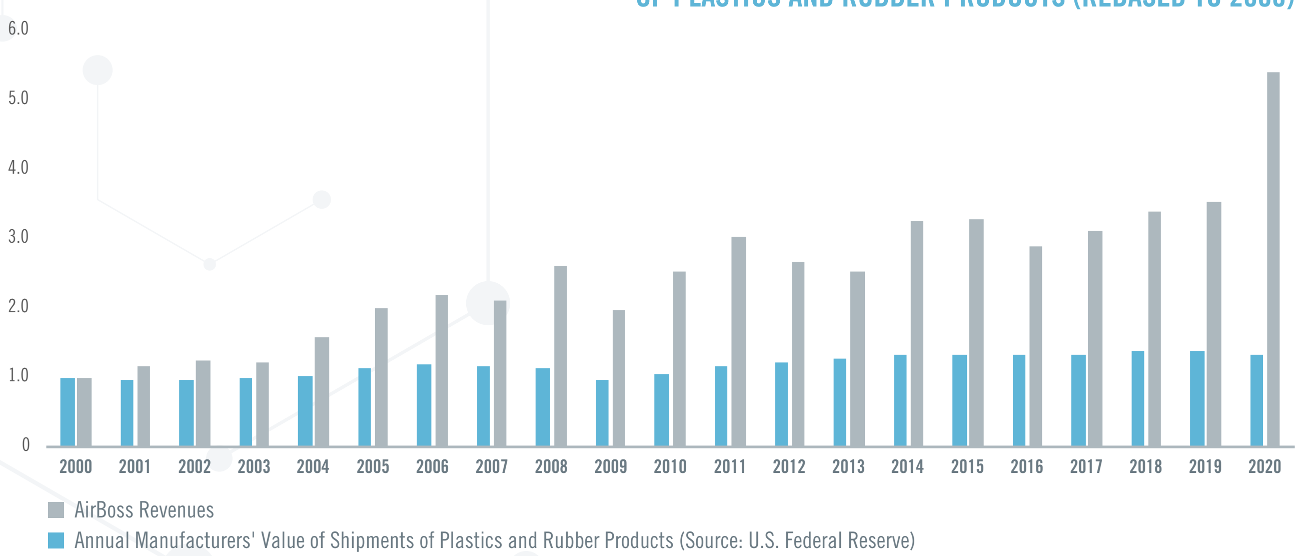
Consistency
Modern equipment and rigorous testing ensures consistency within and between batches

Diversification
Investments in technical facilities and manufacturing equipment is supporting a growing number of compounds that can be produced

Stability
25-year history of in-house manufacturing for a diverse, blue-chip customer base



AIRBOSS REVENUES VS U.S. ANNUAL MANUFACTURERS' VALUE OF SHIPMENTS OF PLASTICS AND RUBBER PRODUCTS (REBASED TO 2000)



AirBoss® of America Corp.

‘89

Founded as IATCO, commercializing a range of non-pneumatic, off road rubber tires

1994

Changed name to AirBoss of America Corp.

1996

Acquired Kitchener, ON-based International Technical Rubber Manufacturing Inc., a custom rubber mixer

1999

Acquired Quebec-based Acton International, a leader in protective rubber wear for military and civil operations

2006

Opened Scotland Neck, NC rubber mixing facility adding 50 million pounds of annual capacity

Innovation and Diversification have Driven Profitable Growth through Multiple Economic Cycles

2013

Acquired Auburn Hills, MI-based Flexible Products Co., a provider of anti- vibration solutions to the North American auto market

2015

Acquired Landover, MD-based Immediate Response Technologies, LLC, a manufacturer of gas mask filters, PAPRs, shelters and isolation systems

2019

Rubber mixing capacity grows to 500 million pounds annually

Inaugurated new R&D technical centre in Kitchener, ON

2020

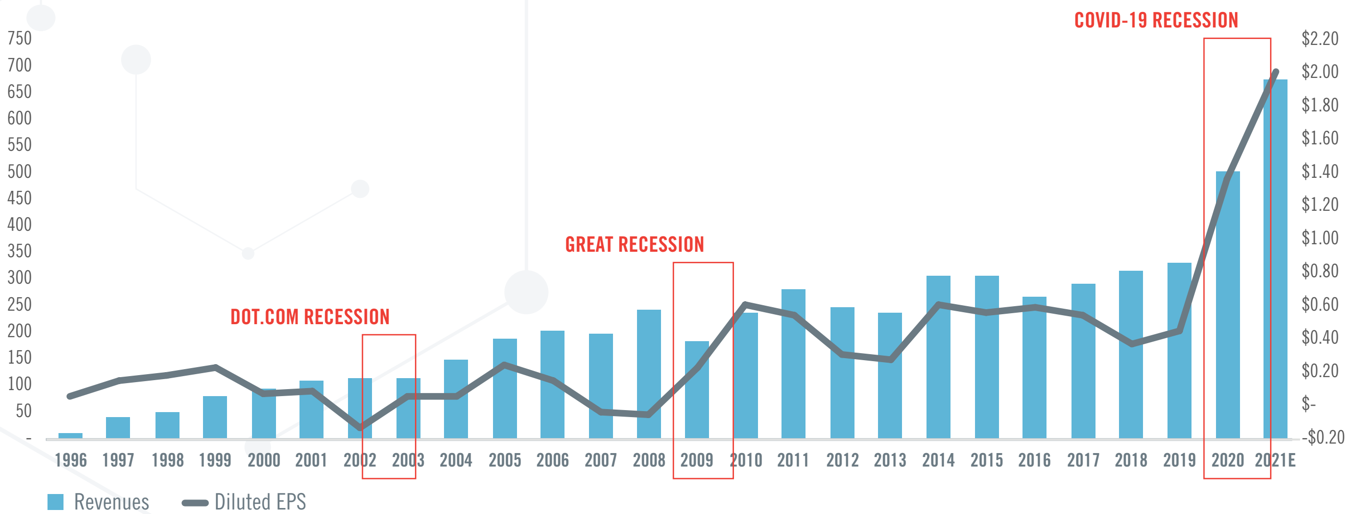
Established ADG, combining Critical Solutions International, Inc. and AirBoss Defense

Awarded largest individual contract in Company history - $121 million from US Dept. of Health and Human Services

'21

Forecasting another record financial performance.

AirBoss' Financial Performance



Note: 2021E represents midpoint of the Company's outlook for 2021 revenues and Adjusted earnings per diluted share; prior years are IFRS net income (loss) per diluted share. The 2021 outlook is as of March 16, 2021 and is subject to a number of risk factors and accounting assumptions, as outlined in the Company's March 16, 2021 press release 'AirBoss Announces Positive Outlook for 2021 Fueled by Strong Organic Sales' available on SEDAR and airboss.com

AIRBOSS DEFENSE GROUP

‘99

Acquired Quebec-based Acton International, a leader in protective rubber wear for military and civil operations

2002

Launched new CBN glove

2006

3rd generation CBRN boots into production

2008

First gas mask sales to Canadian DND

2011

Canadian and U.S. military contracts awarded for injection molded overboots

ADG is Survivability

ADG is an umbrella survivability group that provides healthcare, defense, security and other customers around the world with a growing and diversified portfolio of products that span the survivability spectrum.

Innovative Protective Solutions

When AirBoss acquired Landover, MD-based Immediate Response Technologies LLC in 2015, it gained innovative filter technology applicable to a range of products for use by healthcare professionals, first responders and soldiers.

As part of previous military and government contract wins and in the face of the COVID-19 pandemic, AirBoss has successfully deployed an array of solutions that leverage this filter technology designed to keep those on the front line of a chemical, nuclear, radiological or biological (“CBRN”) incident safe. ADG deploys these filters as part of multiple systems, supplying replacements as needed, which can generate a recurring, multi-year revenue stream for the Company.

2015

Acquired Landover, MD-based Immediate Response Technologies, LLC, a manufacturer of gas mask filters, PAPRs, shelters and isolation systems

2018

Won tenders from Canadian and Australian militaries for new low-burden gas mask valued at up to $33 million

2020

ADG AIRBOSS DEFENSE GROUP

Announced $220M in orders to supply PAPRs to the U.S. government

Announced an additional US$22.0 million in contracts across the survivability portfolio for multiple parties in North America and internationally

Remaining (45%) minority interest in AirBoss Defense Group acquired by AirBoss of America

‘21

Announced intention to acquire BlackBox Biometrics, Inc. developer of the BlastGauge® System

Received contract from HHS for nitrile patient examination gloves valued at up to $576 million

Powered Air Purifying Respirator ("PAPR") System

The FlexAir™ PAPR system is a compact, lightweight Powered Air Purifying Respirator system with an onboard lithium-ion battery installed in the waist-mounted blower unit. The design permits the use of two high efficiency particulate filters at a time providing protection against particulates, aerosols and biohazards, offering a very high level of defense against viruses like COVID-19. Wearers are protected by having contaminated air purified by filtration media mounted on the PAPR blower unit and delivered via a lightweight breathing hose to the user's head cover.

Low Burden Gas Mask

Constructed using a proprietary AirBoss rubber formulation, the Low Burden Gas Mask ("LBM") offers 24 hours of protection against a variety of weaponized chemical and biological threats as well as toxic industrial chemicals and offers an array of features designed to maximize operating efficiency.

ADG
AIRBOSS DEFENSE GROUP

Expanding a Diversified Survivability Platform

The formation of ADG has created the full value chain of a survivability platform, combining decades long experience, expertise and innovation in manufacturing and engineering design with new marketing, distribution and supply chain management expertise for a broadened customer-base across the globe.

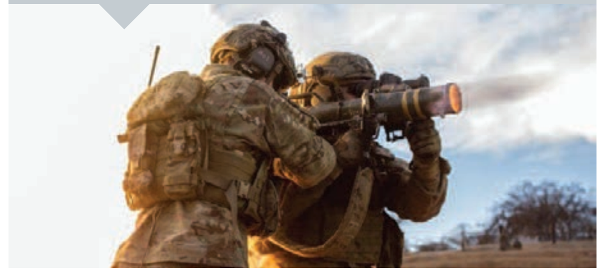
It has also expanded AirBoss's global leadership in rubber CBRN protective equipment with complementary counter-explosive and route clearance products.

Husky 2G Vehicle System

The Husky is a blast-survivable, mission configurable vehicle platform that deploys a range of radar and sensor systems for countermine and non-conventional explosive detection. Husky systems have survived more than 8,000 blasts without a single soldier fatality.

Status: Approximately 1,500 Husky systems deployed to military customers globally.

Recent Wins: Contract extension with foreign militaries valued at up to $35.6 million (Q4 2020); $5.8 million contract for ground penetrating radar and other accessories to the Egyptian military (Q4 2020).



Blast Gauge®

Description: The Blast Gauge® System is a lightweight wearable system of small, low-profile sensors that measure blast overpressure experienced by military personnel. Data is captured, wirelessly transmitted and stored for analysis by medical personnel, facilitating decisions regarding duty readiness of personnel. The system has a one-year field life and is replaced annually, potentially creating a recurring revenue stream for ADG.

Status: Currently in field testing with the US Department of Defense.

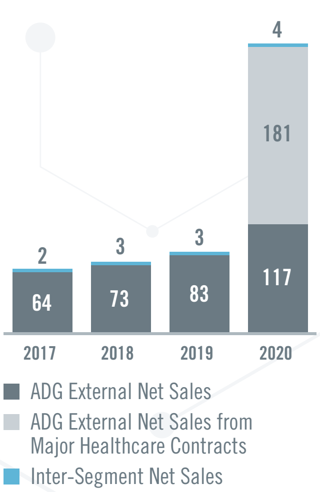
Recent Wins: Received initial order of 10,000 units from US Department of Defense to support ongoing field testing.

VISION FOR GROWTH

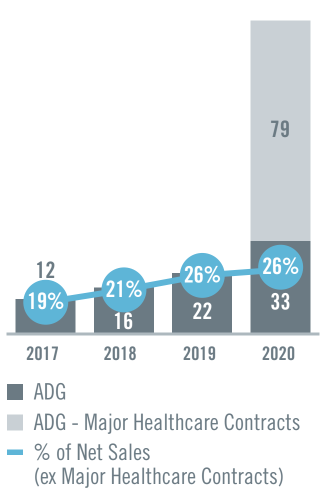
ADG is focused on delivering on contracts it has already won and securing potential new contracts from a strong pipeline of near term opportunities, with a combined valued at more than $1B.

ADG intends to drive further growth by cross marketing its broad platform of products to its global customer-base, generating recurring revenues from consumables required for its increasingly large base of products, developing or sourcing next generation survivability products to bring to market, and winning new defense contracts. The company expects to supplement organic growth with acquisitions.

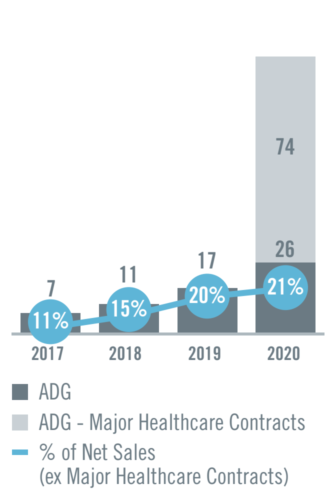
NET SALES $M



GROSS PROFIT $M



EBITDA $M



AirBoss Rubber Solutions

‘96

Acquired Kitchener, ON-based International Technical Rubber Manufacturing Inc., a custom rubber mixer

1997

Started rubber compounding in Kitchener, ON including synthetic, natural, non-marking, mixed and industrial rubber

1999

Rubber mixing capacity grows to 200+ million pounds annually

2006

Opened Scotland Neck, NC rubber mixing facility adding 50 million pounds of annual capacity

Made improvements in Kitchener, ON facility

Established global supply chain for critical chemicals

Leader in Custom Rubber Compounding

As one of North America’s largest custom compounding companies, ARS manufactures customized rubber-based formulations, and helps its customers solve problems and discover superior rubber-based solutions that can improve their bottom lines.

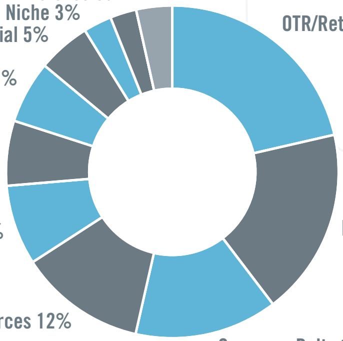
Innovating

the Next Generation of Specialty Compounds

In 2019, AirBoss undertook an array of initiatives designed to innovate beyond its traditional black rubber compounding business. This included inaugurating a new technical/R&D centre capable of developing and testing a broader array of specialty compounds that are specific to individual customer needs. This new state-of-the-art facility employs leading-edge technology and facilitates collaborative development of compounds that address an increasingly complex set of customer challenges. In 2019, the Company also added new white/colour and specialty tilt mixing lines in Kitchener, ON, adding a range of new compounds it is able to offer customers.

DIVERSIFIED CUSTOMER BASE

The Company maintains a diversified customer base and provides rubber for a range of industrial and resource applications, including on and off the road tires and related retreading compounds, conveyor belts, as well as for its own use in anti-noise, vibration and harshness and defense applications. This significant diversification among end markets and customers better positions the Company to weather volatility in industry and broader economic cycles.



ARS VOLUME PER SECTOR

‘20

2012

Major refurbishment of Scotland Neck, NC facility completed to support increased volumes

2019

Upgraded high-volume black rubber line and installed white/colour and specialty tilt mixing lines in Kitchener, ON

Added second mixing line in Scotland Neck, NC

Inaugurated new R&D technical centre in Kitchener, ON

White/colour and specialty tilt mixing lines in full operation

Rubber mixing capacity grows to 500 million pounds annually

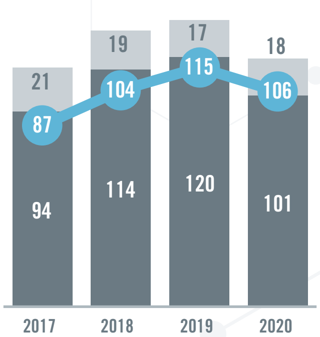
Inaugurated new Quality Assurance lab in Kitchener, ON

VISION FOR GROWTH

ARS has traditionally focused on customers’ needs for larger volumes of compounded black rubber, which prior to the COVID-19 pandemic allowed production to grow at a compound annual growth rate in excess of 10%, ahead of broader industry levels. While net sales at ARS dropped in 2020 on a temporary COVID-related drop in tire rubber tolling volumes, in recent years management has increasingly focused on supplementing that growth by meeting a broader range of customer needs, including for white and coloured rubber as well less commoditized, specialty compounds.

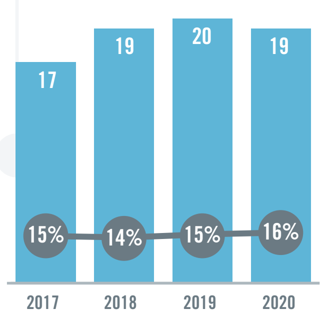
AirBoss is focused on both increasing existing customer penetration and gaining market share by helping customers access a broader range of rubber compounding capabilities through a single supplier. While much of ARS’ historical growth has come from organic initiatives, including investments in capacity and innovation, AirBoss believes there are opportunities to grow through acquisition by targeting regional expansion of all product lines, including both large volume and niche specialty rubber.

RUBBER LBS SOLD & NET SALES



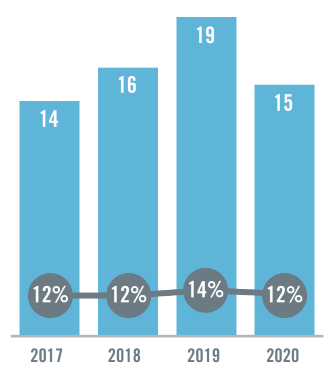
External Net Sales $M
Inter-Segment Net Sales $M
Rubber Lbs. Sold M (excludes internal)

GROSS PROFIT $M



Gross Profit
% of Net Sales

EBITDA $M



EBITDA
% of Net Sales

AirBoss Engineered Products

‘13

Acquired Auburn Hills, MI-based Flexible Products Co., a provider of anti-vibration solutions to the North American auto market

Established Kuala Lumpur, Malaysia manufacturing joint venture

2014

Integrated Flexible Products into AirBoss

2017

New management hired to focus on strategy to diversify into non-automotive and improve profitability through operational efficiency and innovation

Innovator in Anti-Vibration Components

As one of the industry’s leading custom molders, AEP manufactures customized rubber-based products used across the automotive, electric vehicle, heavy truck & off-highway, industrial, and defense industries.

Focus on Innovation

In 2019, AirBoss made a preliminary investment in advanced manufacturing technologies by sourcing a cutting edge, “lights out” robotic work cell that could be used to produce lower margin parts quickly and efficiently, permitting allocation of skilled labour to higher margin, more technically advanced products. Despite the pandemic, the first cell was installed, tested and moved into regular operation in the third quarter of 2020. The new cell automates repetitious tasks and ensures consistent quality and low variability between batches. Following a positive evaluation of the first cell, AirBoss is sourcing a second cell for its Auburn Hills, MI facility.

'20

2018

Steel tariffs introduced that negatively impacted margins

2019

Rolled out advanced manufacturing technologies including automated presses

Launched strategy to facilitate expansion into non-auto noise, vibration and harshness applications for light and heavy vehicles

Installed "lights out" robotic work cell in Auburn Hills, MI facility to improve productivity and margins

Certified to produce rubber-molded defense products and PAPRs

Expansion into non-auto products

Launching first hydrobushings for use in passenger vehicles and light commercial trucks

DIVERSIFICATION

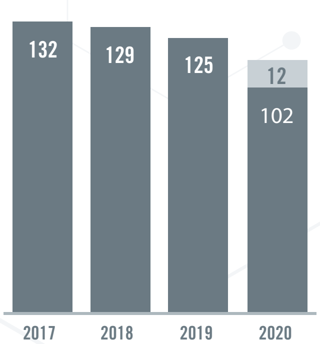
AEP has traditionally focused on the passenger auto and light truck sectors, which in recent years has accounted for virtually all net sales. In 2019, AirBoss established a non-automotive team to identify opportunities to diversify into solutions for recreational and light and heavy commercial vehicles. Vehicles of all types face significant challenges reducing noise, vibration and harshness. AirBoss is focused on balancing the contribution from the automotive sector with a growing array of applications. For 2020, approximately 10% of net sales came from non-automotive sources.

VISION FOR GROWTH

Increasing pricing pressure from offshore automotive parts supply, increases in steel tariffs, and customer givebacks have driven margin erosion at AEP for several years. In the near term, AirBoss is focused on returning AEP to operating profitability through diversification of sales into non-auto sectors, innovation to drive continuous efficiencies, and rationalization of unprofitable business.

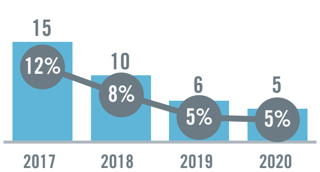
Over the longer term, AirBoss is targeting growth by developing highly engineered and therefore higher margin solutions in sectors where they are required, potentially including renewable energy, marine, rail, construction equipment and appliances.

NET SALES $M



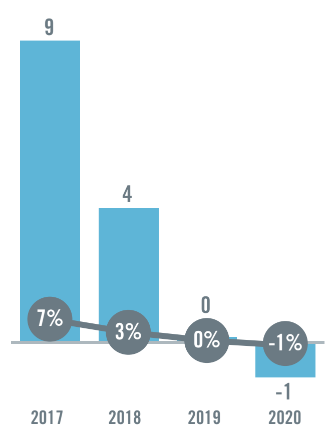
Inter-Segment Net Sales (Defense)
External Net Sales

GROSS PROFIT $M



Gross Profit
% of Net Sales

EBITDA $M



EBITDA
% of Net Sales

Building our
Sustainability Future

AirBoss recognizes that a growing number of stakeholder groups, including customers, suppliers, employees and shareholders, are increasingly focused on how the Company performs from a sustainability perspective. In recent years, management has begun to integrate improved Environmental, Social and Governance ("ESG") practices into the business. In late 2020, AirBoss took a step toward formalizing its ESG initiatives and is currently in the process of introducing metrics and frameworks based on the Task Force on Climate-related Financial Disclosures ("TCFD") and the Sustainability Accounting Standards Board ("SASB") reporting standards.

ENVIRONMENTAL

AirBoss' facilities in Kitchener, ON, Scotland Neck, NC, and Auburn Hills Michigan are ISO 14001:2015 certified. ISO 14001:2015 is intended for use by organizations seeking to manage their environmental responsibilities in a systematic manner that contributes to the environmental pillar of sustainability.

SYSTEM CERTIFICATION ISO 14001 SGS

AirBoss sources its natural rubber from large, commercial plantations that sustainably harvest sap which is then processed in slabs of rubber. AirBoss also 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.

AirBoss collaborated with Tyromer Inc. to implement an innovative 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. 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.

SOCIAL

AirBoss strives to work hand in hand with all stakeholders including the surrounding communities, the government, individual and institutional investors, and customers. Analysis of the impact our facilities have on the neighboring communities is conducted regularly and decisions are made to help manage this impact.

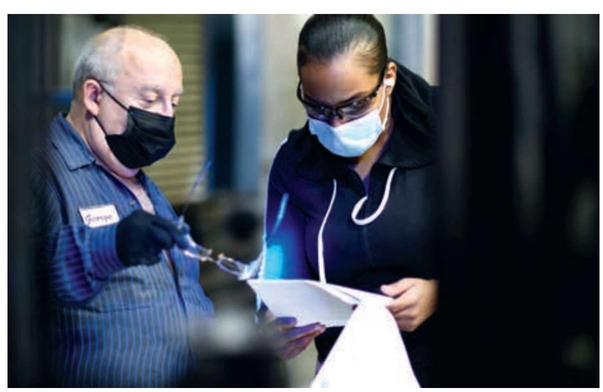
AirBoss’ systems are agile to accommodate changing demands from all its stakeholders. Creating a fair and diverse work force in all its locations is a high priority for the organization, along with having effective and efficient personnel to generate optimal success. Customers and stakeholders play an integral role in the decisions that AirBoss makes.

For the year ended December 31, 2020, and despite the impact of the COVID-19 pandemic, the Company's total head count grew from 1,203 at December 31, 2019 to 1,318 in 2020, a 9.6% increase.

GOVERNANCE

AirBoss believes that operating with integrity is critical to the creation of long-term shareholder value. AirBoss’ governance objectives and policies ensure that not only governmental and regulatory requirements are met, but also that there is a framework for ongoing improvement and development.

Over the last 20 months AirBoss has added three new directors to its board, including Stephen M. Ryan in 2020, bringing fresh perspectives and specific industry expertise to bear. Seven of eight directors on the board are independent.



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 9, 2021 and should be read in conjunction with the Consolidated Financial Statements and Notes for the year ended December 31, 2020 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.airboss.com**.

FORWARD-LOOKING INFORMATION

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

Statements containing forward-looking information are necessarily based upon a number of opinions, estimates and assumptions that, while considered reasonable by management at the time the statements are made, are inherently subject to significant business, economic and competitive risks, uncertainties and contingencies. AirBoss cautions that such forward-looking information involves known and unknown contingencies, uncertainties and other risks that may cause AirBoss' actual financial results, performance or achievements to be materially different from its estimated future results, performance or achievements expressed or implied by the forward-looking information. Numerous factors could cause actual results to differ materially from those in the forward-looking information, including without limitation: impact of general economic conditions, notably including its impact on demand for rubber solutions and products; dependence on key customers; global defense budgets, notably in the Company's target markets, and success of the Company in obtaining new or extended defense contracts; cyclical trends in the tire and automotive, construction, mining and retail industries; sufficient availability of raw materials at economical costs; weather conditions affecting raw materials, production and sales; AirBoss' ability to maintain existing customers or develop new customers in light of increased competition; AirBoss' ability to successfully integrate acquisitions of other businesses and/or companies or to realize on the anticipated benefits thereof; changes in accounting policies and methods, including uncertainties associated with critical accounting assumptions and estimates; changes in the value of the Canadian dollar relative to the US dollar; changes in tax laws and potential litigation; ability to obtain financing on acceptable terms; environmental damage and non-compliance with environmental laws and regulations; impact of global health situations; potential product liability and warranty claims and equipment malfunction. COVID-19 could also negatively impact the Company's operations and financial results in future periods. There is increased uncertainty associated with future operating assumptions and expectations as compared to prior periods. As such, it is not possible to estimate the impacts COVID-19 will have on the Company's financial position or results of operations in future periods. While the direct impacts of COVID-19 are not determinable at this time, the Company has a credit facility as at December 31, 2020 that can provide financing up to $60,000. 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 Annual 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

Recent Highlights

(In US dollars)

- Grew net sales by 54.1% for the fourth quarter of 2020 ("Q4 2020") to $132.2 million vs $85.8 million in the fourth quarter of 2019 ("Q4 2019") and by 52.9% to $501.6 million in 2020 vs $328.1 million in 2019;
- Increased Adjusted EBITDA by 259.6% to $32.8 million in Q4 2020 vs $9.1 million in Q4 2019, and by 228.0% to $105.6 million in 2020 vs $32.2 in 2019;
- Grew diluted EPS by 436.4% to $0.59 in Q4 2020 (Q4 2019: $0.11), and by 206.8% to $1.35 for 2020 (2019: $0.44);
- Increased Adjusted EPS to $0.59 in Q4 2020 (Q4 2019: $0.12) and to $1.45 in 2020 (2019 - $0.47);
- Finished Q4 2020 with a Net Debt to EBITDA ratio of (0.09)x;
- Paid a quarterly dividend of C$0.07 per common share for a total annual payment of C$0.28;
- Completed acquisition of 100% ownership of AirBoss Defense Group effective October 26, 2020 by purchasing 45% minority interest held by Critical Solutions Holdings, LLC;
- Continued delivery against a $121.0 million contract from the U.S. Department for Health and Human Services ("HHS") with the completion of the FlexAir™ PAPR systems ("PAPR's") portion of the contract, and the remaining fulfillment of filters, and related accessories expected to be completed by early Q2 of 2021;
- Announced that AirBoss Defense Group was awarded an additional US$22.0 million in contracts across its survivability portfolio for multiple parties in North America and internationally;
- Continued to strengthen the Board with the appointment of Stephen Ryan to the Board of Directors, the third new Director added to the Board over the past 18 months; and
- Announced that AirBoss Defense Group has agreed to acquire Blackbox Biometrics, developer of the Blast Gauge System of lightweight wearable blast overpressure sensors which have been outfitted on U.S. Special Forces, Army, and SWAT teams across the U.S.

Selected Financial Information

In thousands of US dollars, except share data

For years ended December 31	**2020**	2019	2018
Financial results:			
Net sales	**501,572**	328,126	316,603
Profit	**56,262**	10,219	8,536
Profit attributable to owners of the Company	**33,703**	10,219	8,536
Adjusted Profit attributable to owners of the Company[2]	**36,087**	10,948	8,926
Earnings per share (US$)			
– Basic	**1.40**	0.44	0.37
– Diluted	**1.35**	0.44	0.37
Adjusted earnings per share[2] (US$)			
– Basic	**1.50**	0.47	0.38
– Diluted	**1.45**	0.47	0.38
EBITDA[2]	**103,211**	32,082	25,675
Adjusted EBITDA[2]	**105,595**	32,196	26,065
Net cash from operating activities	**104,399**	11,706	19,867
Free cash flow[2]	**89,965**	(7,775)	11,632
Dividends declared per share (CAD$)	**0.28**	0.28	0.28
Capital additions	**15,606**	26,700	8,476
Financial position:			
Total assets	**367,369**	249,664	232,528
Term loan and other debt[1]	**90,734**	74,144	62,956
Net Debt[2]	**(9,718)**	59,481	44,859
Shareholders' equity	**194,588**	125,979	121,483
Outstanding shares*	**26,908,802**	23,392,442	23,392,442
**26,908,802 at March 9, 2021*			

[1]Term loan and other debt includes $13,482 of lease liabilities (2019: $14,542; 2018: $235)
[2]Non-IFRS Financial Measures

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, depreciation, amortization and impairment)
Adjusted EBITDA
Adjusted profit attributable to owners of the Company
Adjusted earnings per share
Free cash flow
Net debt

The above terms are non-IFRS financial measures and are derived from the consolidated financial statements but do not have a standardized meaning prescribed by IFRS and are not necessarily comparable to similar measure presented by other issuers.

The Company discloses these terms for use in financial measurements made by interested parties and investors to monitor the ability of the Company to generate cash from operations for debt service, to finance working capital and capital expenditures, potential acquisition and to pay dividends. These terms are not a measure of performance under IFRS and should not be considered in isolation or as a substitute for net income under IFRS.

A reconciliation of Profit to EBITDA and Adjusted EBITDA is presented below:

In thousands of US dollars	**2020**	2019	2018
EBITDA:			
Profit	**56,262**	10,219	8,536
Finance costs	**3,368**	3,831	2,921
Depreciation, amortization, and impairment	**21,014**	13,716	10,966
Income tax expense	**22,567**	4,316	3,252
EBITDA	**103,211**	32,082	25,675
AirBoss Defense Group ("ADG") transaction fees	**2,384**	1,401	390
Insurance provision	**–**	(1,287)	–
Adjusted EBITDA	**105,595**	32,196	26,065

A reconciliation of Profit attributable to owners of the Company to Adjusted profit attributable to owners of the Company and Adjusted earnings per share is presented below:

In thousands of US dollars	**2020**	2019	2018
Adjusted profit attributable to owners of the Company:			
Profit attributable to owners of the Company	**33,703**	10,219	8,536
ADG transaction fees	**2,384**	1,401	390
Insurance provision	**–**	(672)	–
Adjusted profit attributable to owners of the Company	**36,087**	10,948	8,926
Basic weighted average number of shares outstanding	**24,032**	23,392	23,345
Diluted weighted average number of shares outstanding	**24,901**	23,445	23,383
Adjusted earnings per share (in US dollars):			
Basic	**1.50**	0.47	0.38
Diluted	**1.45**	0.47	0.38

A reconciliation of loans and borrowings to Net debt is presented below:

In thousands of US dollars	**2020**	2019	2018
Net debt:			
Loans and borrowings - current	**27,083**	5,358	3,794
Loans and borrowings - non-current	**63,651**	68,786	59,162
Leases included in loans and borrowings	**(13,482)**	(14,542)	(235)
Cash and cash equivalent	**(86,970)**	(121)	(17,862)
Net debt	**(9,718)**	59,481	44,859

A reconciliation of net cash provided by operating activities to free cash flow is presented below:

In thousands of US dollars	**2020**	2019	2018
Free cash flow:			
Net cash provided by operating activities	**104,399**	11,706	19,867
Acquisition of property, plant and equipment	**(14,215)**	(17,261)	(7,264)
Acquisition of intangible assets	**(719)**	(2,220)	(971)
Proceeds from government grant	**500**	–	–
Free cash flow	**89,965**	(7,775)	11,632
Basic weighted average number of shares outstanding	**24,032**	23,392	23,345
Diluted weighted average number of shares outstanding	**24,901**	23,445	23,383
Free cash flow per share (in US dollars):			
Basic	**3.74**	(0.33)	0.50
Diluted	**3.61**	(0.33)	0.50

OVERVIEW

This was a transformative year for AirBoss as the creation and eventual 100% acquisition of AirBoss Defense Group resulted in our defense business becoming a significant contributor to the AirBoss portfolio while executing on the biggest survivability contracts in its history. Despite the extensive challenges associated with COVID-19, the company was focused on supporting its customers, employees and stakeholders during the pandemic while delivering on its highest sales, EBITDA and EPS in its history. This was a record breaking year for AirBoss, and we believe poises the Company for continued success in the future. The timing for the continued recovery in volumes will be subject, at least in part, to a stable and sustained re-opening of businesses across North America, which could be difficult to predict, especially in light of the current COVID-19 impacts globally and across North America, which remains a key market for the Company.

Despite the continued second wave of the COVID-19 pandemic, AirBoss has continued to take the necessary steps, including risk mitigation plans within the Company's supply chain, to strive to reduce any potential impact to its business and that of customers, by identifying alternative raw material sources both domestically and internationally while providing a safe work environment for its employees.

While this past year had many obstacles and challenges, AirBoss was able to continue to take advantage of opportunities supporting its strong trajectory for the year. The Company's strong results were driven by the delivery and completion of a large personal protective equipment ("PPE") award from FEMA, which was completed mid-year and this strong performance was further augmented by the deliveries under the PPE contract for HHS which provided a strong financial backdrop to offset the COVID-19 related impact on the Rubber Solutions and Engineered Products segments which did experience progressive recoveries in the latter part of the year.

Despite the pandemic disruptions experienced in the Rubber Solutions and Engineered Products segments, AirBoss continued its capital investment in its support of longer-term growth with investments in a series of key strategic initiatives across the business in 2020 with a dual focus on innovation and diversification. Capital expenditures for 2020 were $14.9 million dollars (excluding leases). Capital expenditures are expected to remain strong as AirBoss continues to invest in its future well above historical levels.

For the Rubber Solutions segment, areas of investment continued to build from the record capital spend in 2019 with the successful implementation of the automated small ingredient weighment system. While this segment saw progressive traction in each of the quarters in the latter half of the year, development and sales in colored rubber continued to grow in line with the margin expansion strategy with new customers while continuing to develop new compounds, proprietary compounds, and continuous improvement on existing compounds. The continued focus on operational excellence supported the new mixing lines in Kitchener, ON and Scotland Neck, NC that, in addition to increasing annual capacity by 20 and 50 million pounds, respectively, supported production of a broader array of compounded products (white and color), as well as provided enhanced flexibility in attracting and fulfilling new business. The Company has also made further inroads in utilization of the "tilt" mixer, which should support the production of increasingly specialized, higher margin compounds, further diversifying AirBoss' offering and enhancing penetration with both existing and new customers. In Kitchener, AirBoss continued to invest in its R&D expertise and lab capital 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, 2020 was a transformative year as the business dealt with the significant challenge of temporarily suspended operations due to COVID-19 at the end of the first quarter and into the second quarter, aligned with pending re-starts by key customers that began in mid-May. The Company managed variable costs within the Engineered Products business, flexing overhead to mirror the impact of their key customers. Management also accelerated the plan to begin producing certain molded defense products at the Auburn Hills, MI facility, as well as PAPRs, which supported the return to work for some staff as well as continued execution against existing defense contracts. These measures helped utilize, and offset the impact of, temporarily shuttered manufacturing capacity in the anti-noise, vibration and harshness business, which was substantially ramped back up to historical levels in the fourth quarter. AirBoss also continues to push ahead with the new robotic work cell fully installed as well as the diversification of its product lines into sectors adjacent to the automotive space. Management is continuing to address key challenges in the anti-vibration business, focusing on margin improvement with targeted cost management, improved pricing strategies and investments in advanced manufacturing. Over the medium and longer-term, the team is focused on launching new products that diversify initially into opportunities adjacent to the automotive space, increasingly across a range of sectors where more highly engineered anti-noise, vibration and harshness solutions are required including, renewable energy, marine, rail and appliances.

On January 1, 2020 AirBoss announced a transaction to create AirBoss Defense Group ("ADG") through the merger of the AirBoss defense business with privately-owned Critical Solutions International, with AirBoss owning 55% of this new group. While management knew there were numerous synergies associated with transaction, including the creation of a strong platform with the scale, capabilities and flexibility to act on an array of growth opportunities, ADG executed on its biggest year in its history, culminating in AirBoss acquiring the remaining 45% of the group in Q4 of 2020. The Company's record results for 2020 were driven by sales in its survivability platform with the completion of the PPE award from FEMA, completed in July followed up with the deliveries under the PPE contract for HHS which provided a strong financial backdrop to offset the COVID-19 related impacts in the other segments. In addition, ADG remains focused on fulfilling contracts in its core portfolio including the MALO contract award from the U.S. Department of Defense. ADG continues to advance next-generation products like Blast Gauge® and a new version of the low-burden mask through focused 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, 2020 compared to 2019

NET SALES

Consolidated net sales for the year ended December 31, 2020 increased by 52.9% to $501,572, compared with 2019 due largely to the FEMA and HHS contracts, supported by the completion of the ADG transaction. This increase was partially offset by softness in the Rubber Solutions and Engineered Products segments, primarily due to the impact of the COVID-19 pandemic.

In thousands of US dollars		Rubber Solutions	Engineered Products	AirBoss Defense Group	Inter-segment net sales	Total
Net Sales	**2020**	**119,090**	**114,557**	**302,278**	**(34,353)**	**501,572**
	2019	137,517	124,887	85,577	(19,855)	328,126
Increase (decrease) $		(18,427)	(10,330)	216,701	(14,498)	173,446
Increase (decrease) %		(13.4)	(8.3)	253.2	73.0	52.9

Rubber Solutions

Net sales for the year ended December 31, 2020 decreased by 13.4%, to $119,090, from $137,517 in 2019. The decrease in net sales was principally due to an 8.4% decrease in volume (measured in pounds shipped).

The decrease in net sales was reflected across a number of sectors given the impact of COVID-19 and was primarily in the conveyor belt, tolling and energy sectors. This was partially offset by increases in the industrial and hose sectors.

Tolling volumes for the year ended December 31, 2020 decreased by 15.1%, compared with 2019. Non-tolling volumes for the year ended December 31, 2020 also decreased compared with 2019, down 6.6%. The decrease in volume was primarily in Oil & gas, and conveyor belt applications.

Engineered Products

Net sales in the Engineered Products segment decreased by 8.3%, to $114,557, from $124,887 in 2019. The decrease was across all product lines as a result of the COVID-19 pandemic, which resulted in the partial shutdown during Q2 2020 of the Auburn Hills, Michigan plant. This was partially offset by the pivot to certain molded defense products during the year.

AirBoss Defense Group

Net sales in the AirBoss Defense Group segment increased by 253.2% to $302,278, from $85,577 in 2019. The increase was primarily the result of the completion of the large contract from FEMA and continued successful delivery of the HHS contract noted above which is expected to continue until Q2 of 2021. In addition, there were higher sales for other products in the defense portfolio and Critical Solutions International, Inc. ("CSI") sales stemming from the ADG transaction that were not included in 2019.

GROSS PROFIT

For the year ended December 31, 2020, consolidated gross profit was up by $87,168 to $135,922. Gross profit as a percentage of net sales increased to 27.1% from 14.9% in 2019. The increase in gross profit was driven by higher volume from ADG and partially offset by lower volumes in the Rubber Solutions and Engineered Products segments. These increases were primarily as a result of strong ADG performance and CSI gross profit that were not included in 2019, in conjunction with managing overhead costs and receipt of government-directed wage subsidies.

In thousands of US dollars		Rubber Solutions	Engineered Products	AirBoss Defense Group	Total
Gross Profit	**2020**	**18,552**	**5,337**	**112,033**	**135,922**
	2019	20,459	6,456	21,839	48,754
Increase (decrease) $		(1,907)	(1,119)	90,194	87,168
% net of sales	**2020**	**15.6**	**4.7**	**37.1**	**27.1**
	2019	14.9	5.2	25.5	14.9

Rubber Solutions

For the year ended December 31, 2020, gross profit for Rubber Solutions was $18,552 (15.6% of net sales), down $1,907 compared to $20,459 (14.9% of net sales) in 2019. The decrease was primarily a result of lower volume partially offset by managing overhead costs in conjunction with receipt of government-directed wage subsidies.

Engineered Products

Gross profit for the year ended December 31, 2020 in the Engineered Products segment was $5,337 (4.7% of net sales), down $1,119 compared with $6,456 (5.2% of net sales) in 2019. The decrease in gross profit was primarily a result of lower volumes in the anti-noise, vibration and harshness business discussed above partially offset by increases in molded defense sales, operational cost containment and managing overhead costs.

AirBoss Defense Group

Gross profit at AirBoss Defense Group for the year ended December 31, 2020 was $112,033 (37.1% of net sales), up $90,194 compared with $21,839 (25.5% of net sales) in 2019. The increase was primarily due to higher volume driven by new business awards and CSI gross profit stemming from the ADG transaction that were not included in the comparable period in 2019, while the Canadian operations were supported by government-directed wage subsidies.

OPERATING EXPENSES

Consolidated operating expenses for the year ended December 31, 2020 increased by $23,337 to $53,725 compared with 2019. The increase was primarily due to CSI operating expenses stemming from the ADG transaction that were not incurred in the comparable period in 2019, impairment charges of $2,827, higher administrative costs, professional fees associated with the ADG transaction, a lower foreign exchange gain, and an insurance settlement associated with a fire that occurred at the plant in Scotland Neck, North Carolina, which reduced costs in 2019. These increases were offset by government-directed wage subsidies. As a percentage of net sales, operating expenses for the year ended December 31, 2020 increased marginally to 10.7% from 9.3% in 2019.

In thousands of US dollars		Rubber Solutions	Engineered Products	AirBoss Defense Group	Corporate	Total
Operating Expenses	**2020**	**7,100**	**12,503**	**24,187**	**9,935**	**53,725**
	2019	5,976	10,762	9,823	3,827	30,388
Increase $		1,124	1,741	14,364	6,108	23,337
% net of sales	**2020**	**6.0**	**10.9**	**8.0**	**N/A**	**10.7**
	2019	4.3	8.6	11.5	N/A	9.3

Rubber Solutions

Rubber Solutions' operating expenses for the year ended December 31, 2020 increased by 18.8%, to $7,100, compared with $5,976 in 2019. The increase was primarily due to receipt of insurance proceeds in 2019 related to a fire at the Scotland Neck, North Carolina facility. In 2019 the Company received payments of $1,159 to cover expenses and damage to assets and $128 to cover business interruption losses and recorded an impairment charge of $366 related to assets lost or damaged in the fire. In addition there higher IT costs associated with a new ERP implementation. These increases were partially offset by government-directed wage subsidies.

Engineered Products

Engineered Product's operating expenses for the year ended December 31, 2020 increased by 16.2% to $12,503. The increase was due to higher administration costs and a $743 impairment charge to write down assets no longer in use.

AirBoss Defense Group

AirBoss Defense Group's operating expenses for the year ended December 31, 2020 increased by 146.2% to $24,187. 2019 did not include costs from CSI of $9,033 and the remaining increase was primarily due to the impairment charges of $2,006 noted in Q3, M&A transaction advisory fees, higher R&D costs, and higher administration costs, partially offset by government-directed wage subsidies and a larger foreign exchange gain.

Unallocated Corporate Costs

Unallocated corporate costs for the year ended December 31, 2020 increased by $6,108 from 2019. The increase was principally due to professional fees associated with the ADG transaction of $2,384 (2019: $1,401), a foreign exchange loss (compared to a gain in the comparable period) resulting in an unfavorable net change of $1,622, and higher administration costs that were partially offset by government-directed wage subsidies.

FINANCE COST

Finance costs in 2020 were $3,368 (2019: $3,831). The decrease was primarily due to lower interest expense on the term debt and a decrease in unrealized mark-to-market losses compared to the comparable period, partially offset by higher mark-to-market settlement payments, increased amortization of deferred finance fees, and increased lease interest expense.

INCOME TAX EXPENSE

For the year ended December 31, 2020, the Company recorded an income tax expense of $22,567 (2019: $4,316) or an effective income tax rate of 28.6% (29.7% in 2019). The effective tax rate decreased due to differences in US state income tax rates.

	Tax expense		Rate	
In thousands of US dollars	**2020**	2019	**2020**	2019
Expected statutory rate	**20,889**	3,852	**26.50%**	26.50%
Foreign rate differential	**(890)**	456	**(1.13%)**	3.14%
Effect of permanent differences	**374**	(286)	**0.47%**	(1.97%)
Change in tax rates and new legislation	**(186)**	26	**(0.24%)**	0.18%
Filing differences	**3**	(100)	**0.00%**	(0.69%)
Deductible temporary differences not recognized	**2,367**	667	**3.00%**	4.59%
Other	**10**	(299)	**0.01%**	(2.06%)
Effective tax rate	**22,567**	4,316	**28.61%**	29.69%

NET INCOME AND EARNINGS PER SHARE

Net income in 2020 amounted to $56,262, compared with $10,219 in 2019. The basic and fully diluted net earnings per share were $1.40 (2019: $0.44) and $1.35 (2019: $0.44) based on basic and fully diluted shares outstanding of 24,031,845 (2019: 23,392,442) and 24,900,755 (2019: 23,445,894), respectively. The increase in net income and earnings per share was due to higher gross profit offset by higher operating expenses and income tax expense, as discussed above.

QUARTERLY INFORMATION

In thousands of US dollars			Earnings (loss) per share	
Quarter Ended	Net Sales	Profit (loss)	Basic	Diluted
2020				
December 31, 2020	**132,180**	**15,902**	**0.61**	**0.59**
September 30, 2020	162,745	11,646	0.50	0.47
June 30, 2020	112,450	6,675	0.29	0.27
March 31, 2020	94,197	(520)	(0.02)	(0.02)
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

Fourth Quarter 2020 Results

NET SALES

Consolidated net sales for Q4 2020 increased by 54.1% to $132,180, from $85,762 in Q4 2019, with increases in AirBoss Defense Group and the Engineered Products segment partially offset by decreases in the Rubber Solutions segment, for the reasons outlined below.

Rubber Solutions

Net sales for Q4 2020 in the Rubber Solutions segment decreased 2.9% to $31,728, from $32,689 in Q4 2019. Tolling volume was down 13.0%, while non-tolling volume was up 6.6% driven by the OTR retread and industrial sectors. In tolling applications, the Company only realizes net sales on the provision of compounding services for customer-supplied material, versus non-tolling where AirBoss also supplies the raw material inputs that are reflected in net sales.

The decrease in net sales for Q4 2020 was primarily in the conveyor belt, mining and oil & gas sectors and partly offset by the OTR/retread and industrial sectors.

Engineered Products

Engineered Products net sales for Q4 2020 increased by 12.2% to $33,150 compared with Q4 2019. The increase was across several product lines and in particular the muffler hangers, bushings, spring insulator product lines and molded defense products.

AirBoss Defense Group

AirBoss Defense Group's net sales for Q4 2020 increased by 168.6% to $76,769 compared with Q4 2019. The increase was primarily the result of the large contract from HHS (commenced in August, 2020), to provide PAPR's, filters and related accessories as part of the U.S. government's response to the COVID-19 pandemic. In addition, there were higher sales of masks and boots related to other defense customers and CSI sales stemming from the ADG transaction that were not included in 2019.

GROSS PROFIT

Consolidated gross profit for Q4 2020 increased to $40,255 (30.5% of net sales) from $13,246 (15.4% of net sales) in Q4 2019, with increases in AirBoss Defense Group partially offset by decreases in the Rubber Solutions and Engineered Products segments.

Rubber Solutions

Gross profit at Rubber Solutions for Q4 2020 was $3,873 (12.2% of net sales), compared with $4,444 (13.6% of net sales) in Q4 2019. The decrease in gross profit was principally due to mix and higher material costs partially offset by government-directed wage subsidies.

Engineered Products

Gross profit at Engineered Products for Q4 2020 decreased by $884 to $368 (1.1% of net sales) compared with $1,252 (4.2% of net sales) in Q4 2019. The decrease was primarily a result of mix, partially offset by operational cost containment and managing overhead costs.

AirBoss Defense Group

AirBoss Defense Group's gross profit for Q4 2020 increased by $28,464 to $36,014 compared with Q4 2019.The increase was primarily due to higher volume associated with new business awards, while the Canadian operations were supported by government-directed wage subsidies

OPERATING EXPENSES

Consolidated operating expenses for Q4 2020 increased by $3,718, compared with Q4 2019. The increase was primarily due to CSI operating expenses stemming from the ADG transaction that were not incurred in Q4 2019, and higher administrative costs and M&A transaction advisory fees. These increases were offset by a larger foreign exchange gain, government-directed wage subsidies to support businesses impacted by COVID-19, and lower professional fees associated with the ADG transaction. As a percentage of net sales, operating expenses in Q4 2020 were marginally better than Q4 2019.

INCOME TAX EXPENSE

Tax expense for Q4 2020 increased by $5,992 compared to Q4 2019. Income tax expense increased due to higher pre-tax income.

RECAST REPORTING SEGMENTS

Following the merger between the AirBoss Defense business and CSI on January 1, 2020, the Company realigned the organizational and governance structures of its businesses to align them more closely with the nature of the Company's operations. Such realignment gave rise to changes in how the Company presents information for financial reporting and management decision-making purposes and resulted in a change in the Company's reporting segments. Consequently, as of January 1, 2020, the Company's operating segments are organized into the following reportable segments:

- Rubber Solutions - Includes manufacturing and distribution of rubber compounds and distribution of rubber compounding related chemicals.
- Engineered Products - Includes the manufacture and distribution of anti-noise, vibration and harshness dampening parts.
- AirBoss Defense Group - Includes the manufacture and distribution of personal protection and safety products, primarily for CBRN-E threats, and the manufacture of semi-finished rubber related products
- Unallocated Corporate Costs - Includes corporate activities and certain unallocated costs.

The Rubber Solutions segment will consist of the former rubber solutions segment, excluding the Company's industrial products business line (which is now part of the AirBoss Defense Group Segment).The Engineered Products segment will only consist of the Company's anti-vibration business. AirBoss Defense Group consists of the defense businesses and the Company's industrial products business line.

Recast historical financial information regarding the results of each reportable segment is included below.

Three-months ended March 31	Rubber Solutions		Engineered Products		AirBoss Defense Group		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Segment net sales	**35,964**	33,188	**31,017**	33,517	**21,004**	19,034	**–**	–	**87,985**	85,739
Inter-segment net sales	**(4,570)**	(4,487)	**–**	–	**(840)**	(703)	**–**	–	**(5,410)**	(5,190)
External net sales	**31,394**	28,701	**31,017**	33,517	**20,164**	18,331	**–**	–	**82,575**	80,549
Depreciation, amortization, and impairment	**886**	886	**1,133**	896	**970**	953	**43**	16	**3,032**	2,751
Segment measure of profit (loss)	**3,565**	3,008	**(958)**	1,160	**2,946**	2,081	**(690)**	(1,482)	**4,863**	4,767
Finance costs									**956**	499
Income tax expense									**981**	1,070
Net Income									**2,926**	3,198
Segment assets	**74,879**	72,105	**72,981**	68,090	**80,440**	76,162	**11,748**	11,565	**240,048**	227,922
Segment liabilities	**19,646**	13,635	**18,144**	11,812	**12,212**	7,634	**67,762**	74,752	**117,764**	107,833
Capital additions	**2,268**	705	**374**	266	**474**	602	**118**	43	**3,234**	1,616

Three-months ended June 30	Rubber Solutions		Engineered Products		AirBoss Defense Group		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Segment net sales	**35,493**	34,056	**32,614**	33,850	**19,195**	20,132	**–**	–	**87,302**	88,038
Inter-segment net sales	**(4,161)**	(5,164)	**–**	–	**(525)**	(1,077)	**–**	–	**(4,686)**	(6,241)
External net sales	**31,332**	28,892	**32,614**	33,850	**18,670**	19,055	**–**	–	**82,616**	81,797
Depreciation, amortization, and impairment	**1,306**	865	**1,147**	948	**1,127**	958	**43**	19	**3,623**	2,790
Segment measure of profit (loss)	**5,098**	3,017	**(999)**	722	**2,696**	2,307	**(1,059)**	(1,761)	**5,736**	4,285
Finance costs									**1,124**	671
Income tax expense									**1,301**	954
Net Income									**3,311**	2,660
Segment assets	**75,191**	71,109	**73,873**	68,996	**81,627**	78,691	**6,288**	12,835	**236,979**	231,631
Segment liabilities	**17,309**	15,572	**15,175**	13,420	**12,488**	8,206	**67,601**	72,923	**112,573**	110,121
Capital additions	**2,470**	155	**512**	217	**1,372**	594	**362**	165	**4,716**	1,131

Three-months ended September 30	Rubber Solutions		Engineered Products		AirBoss Defense Group		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Segment net sales	**33,371**	33,528	**31,708**	30,968	**16,795**	18,495	**–**	–	**81,874**	82,991
Inter-segment net sales	**(4,337)**	(4,333)	**–**	–	**(364)**	(885)	**–**	–	**(4,701)**	(5,218)
External net sales	**29,034**	29,195	**31,708**	30,968	**16,431**	17,610	**–**	–	**77,173**	77,773
Depreciation, amortization, and impairment	**951**	892	**1,165**	937	**1,208**	850	**45**	18	**3,369**	2,697
Segment measure of profit (loss)	**3,173**	3,227	**(772)**	(729)	**1,251**	920	**(1,026)**	(765)	**2,626**	2,653
Finance costs									**901**	743
Income tax expense									**200**	563
Net Income									**1,525**	1,347
Segment assets	**74,069**	68,951	**73,222**	67,348	**81,230**	77,190	**11,407**	13,193	**239,928**	226,682
Segment liabilities	**22,984**	12,838	**16,756**	12,195	**11,805**	8,011	**63,623**	72,071	**115,168**	105,115
Capital additions	**3,392**	190	**1,389**	148	**559**	705	**295**	–	**5,635**	1,043

Three-months ended December 31	Rubber Solutions		Engineered Products		AirBoss Defense Group		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Segment net sales	**32,690**	32,291	**29,547**	31,013	**28,583**	18,750	**–**	–	**90,820**	82,054
Inter-segment net sales	**(4,250)**	(4,761)	**–**	–	**(808)**	(809)	**–**	–	**(5,058)**	(5,570)
External net sales	**28,440**	27,530	**29,547**	31,013	**27,775**	17,941	**–**	–	**85,762**	76,484
Depreciation, amortization, and impairment	**1,049**	915	**1,197**	898	**1,395**	898	**51**	17	**3,692**	2,728
Segment measure of profit (loss)	**2,646**	3,115	**(1,578)**	(758)	**5,124**	2,149	**(1,051)**	(1,502)	**5,141**	3,004
Finance costs									**850**	1,008
Income tax expense									**1,834**	665
Net Income									**2,457**	1,331
Segment assets	**76,720**	77,160	**79,471**	66,197	**89,226**	76,301	**4,247**	12,870	**249,664**	232,528
Segment liabilities	**20,560**	20,376	**24,314**	12,821	**14,153**	9,507	**64,658**	68,341	**123,685**	111,045
Capital additions	**2,739**	2,839	**8,232**	855	**1,596**	970	**548**	22	**13,115**	4,686

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its 2021 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 (2019: $60,000). As at December 31, 2020, $732 was drawn against the revolving credit facility to issue letters of credit.

For the period ended December 31, 2020, $104,399 (2019: $11,706) of cash was provided by operations, $8,545 (2019: $19,481) was used for investing activities and $9,586 (2019: $9,996) was used in financing activities. Cash and cash equivalents increased by $86,849 from $121 to $86,970, adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

For the year ended December 31, 2020, cash provided by operating activities increased by $92,693 compared to 2019. The increase was due to a $46,043 increase in profit, higher non-cash expenses of $27,028 and a $39,749 increase in cash provided by net working capital. The increases were partially offset by increased tax payments of $20,492 and higher interest payments of $365.

Cash provided by working capital for the year ended December 31, 2020 increased to $28,176 (2019: used $11,573) as a result of the following factors:

- Cash from accounts receivable was $2,808 due to focused efforts to collect receivable balances and AirBoss Defense Group's collection of a large shipment that was outstanding at December 31, 2019; partially offset by increased sales at AirBoss Defense Group due to the delivery of FlexAir™ PAPR systems to HHS;
- Cash used for Inventory was $169 due to increased inventory at the Rubber Solutions segment in anticipation of shortages and price increases in early 2021, partially offset by reduced inventory at AirBoss Defense Group' industrial products business due to higher sales in the quarter;
- Cash used for prepaid expenses was $1,304 due to deposits for raw material purchases and tooling revenue to be billed in 2021;
- Cash from accounts payable was $26,891 due to obligations related to contracts the HHS contract and increased inventory at the Rubber Solutions segment.

Investing Activities

Property, Plant and Equipment

For the year ended December 31, 2020, the following investments were made in each segment:

Rubber Solutions made investments of $3,348. This included $2,228 to support growth initiatives, $143 on cost savings initiatives, and the remaining spend was to replace or upgrade existing property, plant and equipment.

Engineered Products made investments of $5,297. This included $3,335 on cost savings initiatives and $1,782 to support growth initiatives, and the remaining spend was to replace or upgrade existing property, plant and equipment.

AirBoss Defense Group made investments of $5,070. This included $3,983 to support growth initiatives, $205 on cost savings initiatives, and the remaining spend was to replace or upgrade existing property, plant and equipment.

Intangible assets

The Company invested $719, made up of $86 of product development costs for the defense business and the balance for new financial reporting and new ERP software.

Financing activities

The Company's current credit facilities are comprised of a $60,000 revolving facility, a term loan (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 term loan is amortized by specific installments of quarterly principal payments, along with monthly interest payments. The credit facility includes terms to replace LIBOR with a suitable replacement as that issue develops. The replacement of LIBOR is not expected to have an impact on the consolidated financial statements.

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 the term of the credit facilities and $614 (2019: $306) has been amortized and is included in finance costs.

Interest expense on the term debt was $1,439 (2019: $2,581).

Commitments and contractual obligations

The Company's contractual obligations as at December 31, 2020 are summarized below:

	Payments Due In						
	2021	2022	2023	2024	2025	Thereafter	Total
Term loan	3,807	3,750	48,750	–	–	–	56,307
Forgivable loan from US government	6,464	–	–	–	–	–	6,464
Due to former non-controlling interest	15,000	–	–	–	–	–	15,000
Lease liabilities	1,812	1,520	1,455	1,403	1,340	5,952	13,482
Purchase obligations	15,361	–	–	–	–	–	15,361
Total	42,444	5,270	50,205	1,403	1,340	5,952	106,614

Government assistance

During 2020, Rubber Solutions recognized grants of $15 (2019: $118) as a reduction of expenses and $500 as a reduction of capital assets (2019: nil).

Scientific research and investment tax credits of $1,177 were recognized in 2020 (2019: $537); research and development costs were reduced accordingly.

On May 1, 2020, the Company received a $6,422 loan pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, to fund certain payroll and business expenses of the Company's Michigan and North Carolina operations. This loan bears interest at 1.0% and matures on May 1, 2022 and may be prepaid at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, group health care benefits, rent, and utilities. The Company used the entire loan amount for qualifying expenses. The loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

In April 2020, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") for Canadian employers affected by COVID-19, retroactive to March 15, 2020. CEWS provides a wage subsidy to eligible employers based on certain criteria, including demonstration of revenue declines as result of COVID-19. The Company recorded the subsidy as a reduction to cost of sales and operating expenses in the consolidated statement of profit.

Dividends

A quarterly dividend of $0.07 per share was declared on November 10, 2020 and paid on January 15, 2021. Total dividends declared during the year were $0.28 per common share compared to $0.28 per common share in 2019.

Outstanding shares

As at December 31, 2020 the Company had 26,908,802 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

During the year, the Company paid rent for the corporate office of CAD $180 (2019: 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 $29 (2019: $28) to a company in which the CEO and Chairman is an officer.

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

December 31 *In thousands of US dollars*	**2020**	2019
Salaries and other short term benefits	**4,840**	4,154
Share-based payment expense	**2,200**	352
	7,040	4,506

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 20.5% of the outstanding common shares as at December 31, 2020 (2019: 26.3%).

During 2014, the Company provided a share purchase loan of CAD $1,000 to the former 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 former Chief Financial Officer that was repaid in June 2020. In March 2018, the Company provided a share purchase loan of CAD $500 to the President and Chief Operating Officer. On June 28, 2019, the Company provided share purchase loans of CAD $300 to the Executive Vice President, General Counsel; CAD $92 to the President and Chief Operating Officer; and CAD $100 to the former Vice-President Human Resources that was repaid in April 2020. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or the fifth anniversary of the issuance date. All share purchase loans issued prior to 2019 bear interest at 1% annually and all subsequent loans share purchase loans bear interest at 2% annually. In all cases, loans are full recourse and interest is due and payable semi-annually. In total, 86,807 shares of the Company having a fair value of $1,075 were pledged as collateral on these loans. At December 31, 2020, the loan receivables of $704, including accrued interest, were included in other assets. During the year interest of $15 was paid (2019: $9).

NEW STANDARDS ADOPTED

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 were 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 did not have a material impact on the consolidated financial statements.

Amendments to IFRS 16, Leases

On May 28, 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16). The amendments are effective for annual periods beginning on or after June 1, 2020, with earlier adoption permitted. The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021.

FUTURE ACCOUNTING STANDARDS

Amendments to IAS 1, *Presentation of Financial Statements*

The amendments clarify the classification of liabilities as current or non-current. For the purposes of non-current classification, the amendments remove the requirement for a right to defer settlement of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period in order to qualify for non-current classification. The amendments are effective from January 1, 2023 and the Company is assessing the impact of adopting these amendments on its consolidated financial statements.

Amendments to IFRS 9, *Financial Instruments and IFRS 7, Financial Instruments: Disclosures*

Under the amendments a company will not have to derecognize the carrying amount of financial instruments for changes required by the ongoing reform of inter-bank offered rates and other interest rate benchmarks, but change the effective interest rate to reflect the new benchmark rate. The amendments are effective January 1, 2021. This amendment is 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, 2020, AirBoss Defense Group recorded a $453 allowance for impairment and the Rubber Solutions segment recorded a $297 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, 2020, a reserve for impaired inventory in the Rubber Solutions segment represents $1,219 (2019: $1,200). AirBoss Defense Group maintains a provision of $5,048 (2019: $1,826) and the Engineered Products segment maintains a provision of $190 (2019: $564).

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 2020 or 2019.

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 2020 or 2019.

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 assistance receivable 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, 2020, the Company had contracts to sell USD $16,031 from January 2021 to July 2021 for Canadian dollars ("CAD") $21,200. The fair value of these contracts, representing an unrealized gain of $620, 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 $362 (2019: gain of $1,254), are recorded on the statement of profit as other income (expense).

Interest rate swap

In December 2020, the Company entered into an interest rate swap agreement for a notional amount of $28,125 amortizing down to $24,375 at maturity on January 1, 2023. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 0.265%. This swap agreement replaces an old swap agreement that matured in December 2020 that calculated interest based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%. At December 31, 2019 the notional amount of the old swap agreement was $28,000.

During 2020, interest expense on the swap agreements was $264 (2019: income of $179).

At December 31, 2020, the fair value of this agreement, representing a loss of $57 (2019: loss of $19), is included in loans and borrowings on the statement of financial position. The change in the fair value, representing a loss of $37 (2019: loss of $453), is recorded on the statement of profit as finance costs.

The Company entered into these interest rate swap agreements 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 defense, automotive, tire, energy generation, construction, mining and transportation industries because these industries are significant markets for the Company's business and are highly cyclical. In a severe economic slowdown, prices for coal, copper and other mined materials may fall, affecting demand for conveyor belting, off-road retread tires and other rubber products manufactured by our customers from rubber compounds manufactured by the Rubber Solutions 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. 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.

Political Uncertainty and Policy Change

Certain of the business sectors in which we and our customers operate, particularly in the AirBoss Defense Group and Engineered Products segments, 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 19% (2019: 9%) of consolidated net sales in 2020. Five customers represented 48% (2019: 31%) of consolidated net sales in 2020. 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 carbon black, synthetic and natural rubber, chemicals for rubber mixing, 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	
in millions of US dollars	**2020**	2019
Natural and synthetic rubber	**(4.81)**	(3.38)
Chemicals (Rubber mixing)	**(2.70)**	(2.40)
Steel	**(2.28)**	(3.24)
Carbon black	**(1.90)**	(1.84)
Silicone	**(0.81)**	(0.86)
	(12.50)	(11.72)

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 Solutions and Engineered Products segments, 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 the United States, Canadian 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	
in millions of US dollars	**2020**	2019
Sales (1)	**(3.9)**	(2.4)
Purchases (2)	**5.2**	6.8

(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 and we continue to monitor the impact of COVID-19 (Coronavirus). The duration and scope of the continued outbreak is not known with any certainty and the Company is unable to accurately project the ultimate impact on the business. However, if the outbreak continues for an extended period of time, AirBoss may experience supply chain disruptions, in particular given production delays throughout the world, 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, products which are used in vehicles and products which are worn by individuals in the defense and first responder communities, 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 and its results.

Capacity and Equipment

Our rubber compounding facilities have an annual capacity to process approximately 500 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, pandemic, 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, 2020, 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, 2020 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, 2020 and December 31, 2019 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 9, 2021

P. Gren Schoch
Chairman and Chief Executive Officer

Frank Ientile
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 end of December 31, 2020 and end of December 31, 2019
- the consolidated statements of profit and 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 end of December 31, 2020 and end of December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of impairment of goodwill

Description of the matter

We draw attention to Notes 2(d), 3(e)(i) and 9 to the financial statements. The goodwill balance included in intangible assets is $35,053 thousand. The Entity performs goodwill impairment testing at least annually and whenever events or changes in circumstances indicate that the carrying amount of the cash-generating unit likely exceeds its recoverable amount. The allocation of goodwill 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. The recoverable amount of the cash-generating unit is based on value in use, which is determined by discounting the future cash flows generated from the continuing use of the cash-generating unit. In determining the estimated recoverable amount of the cash-generating unit, the Entity's key assumptions include projected sales and margins, discount rates and the terminal multiple.

Why the matter is a key audit matter

We identified the evaluation of the impairment of goodwill as a key audit matter. This matter represented significant auditor judgement due to the high degree of estimation uncertainty in determining the recoverable amount. In addition, the involvement of those with specialized skills and knowledge was required in performing and evaluating the results of our audit procedures due to the sensitivity of the recoverable amount to changes in key assumptions.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We assessed the Entity's ability to accurately forecast by comparing the Entity's projected sales and margins used in the prior year impairment test to actual results.

We compared the Entity's projected sales and margins to actual results. We took into account changes in conditions and events, affecting each cash-generating unit or cash-generating group to assess the adjustments made in arriving at the projected assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of (1) the discount rates and (2) the terminal multiple. The discount rates for the cash-generating units were compared against a range that was independently developed using publicly available market data for comparable entities. The terminal multiple was compared against independently developed multiples using publicly available market data for comparable entities and overall macro-economic conditions.

Evaluation of acquisition-date fair value of intangible assets

Description of the matter

We draw attention to Notes 2(d) and 4 to the financial statements. The Entity acquired intangible assets through a business combination. The acquisition date fair value for the customer relationships was $17,900 thousand and brand was $6,000 thousand. The Entity's key assumptions in determining the acquisition-date fair value for the customer relationships and brand include revenue forecasts, estimated annual attrition rates, discount rates and royalty rate.

Why the matter is a key audit matter

We identified the evaluation of the acquisition-date fair value of intangible assets as a key audit matter. This matter represented significant auditor judgment due to the estimation uncertainty in determining the fair value of the customer relationships and the brand. In addition, the involvement of those with specialized skills and knowledge was required in performing and evaluating the results of our audit procedures due to the sensitivity of the fair value to possible changes in key assumptions in the models.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We compared the Entity's revenue forecasts by comparing to historical results to assess the Entity's ability to accurately forecast. We took into account changes in conditions and events to assess the Entity's revenue forecasts. We evaluated the estimated annual customer attrition rates to historical attrition rates.

In addition, we involved valuation professionals with specialized skills and knowledge, who assisted with

- Assessment of the valuation approaches used by the Entity to calculate the fair value of the customer relationships and the brand
- Evaluation of the discount rates by comparing to a discount rate range that was independently developed using the capital asset pricing model and weighted average cost of capital
- Evaluation of the royalty rate by comparing it against publicly available market data for comparable entities.

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 "Glossy 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 "Glossy 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 International Financial Reporting Standards (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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 9, 2021

Consolidated Statement of Financial Position

In thousands of US dollars	*Note*	**December 31, 2020**	December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		**86,970**	121
Trade and other receivables, including derivatives	*5, 11*	**68,602**	68,890
Prepaid expenses		**6,176**	4,689
Inventories	*6*	**45,525**	41,996
Current income taxes receivable	*16*	**1,452**	1,611
Total current assets		**208,725**	117,307
Non-current assets			
Property, plant and equipment	*7, 8*	**81,254**	80,169
Intangible assets	*9*	**71,774**	49,935
Deferred Income tax assets	*16*	**3,973**	846
Other assets	*10*	**1,643**	1,407
Total non-current assets		**158,644**	132,357
Total assets		**367,369**	249,664
LIABILITIES			
Current liabilities			
Loans and borrowings	*8, 12*	**27,083**	5,358
Trade and other payables		**74,295**	43,590
Provisions	*13*	**573**	103
Current taxes payable	*16*	**747**	753
Total current liabilities		**102,698**	49,804
Non-current liabilities			
Loans and borrowings	*8, 12*	**63,651**	68,786
Employee benefits	*19*	**664**	510
Provisions	*13*	**2,058**	626
Deferred income tax liabilities	*16*	**3,710**	3,959
Total non-current liabilities		**70,083**	73,881
Total liabilities		**172,781**	123,685
EQUITY			
Share capital	*14*	**87,060**	39,579
Contributed surplus	*14*	**1,578**	1,262
Retained earnings		**105,950**	85,138
Total equity		**194,588**	125,979
Total liabilities and equity		**367,369**	249,664

The notes on pages 43 to 71 are an integral part of these consolidated financial statements.
Commitments (note 18), subsequent event (note 23).

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*	**2020**	2019
Net Sales		**501,572**	328,126
Cost of sales	*6*	**(365,650)**	(279,372)
Gross profit		**135,922**	48,754
General and administrative expenses	*3*	**(42,425)**	(25,016)
Selling and marketing expenses		**(6,332)**	(5,294)
Research and development expenses	*17*	**(2,657)**	(1,907)
Other income (expenses)		**(2,311)**	1,829
Operating expenses		**(53,725)**	(30,388)
Results from operating activities		**82,197**	18,366
Finance costs	*12, 19*	**(3,368)**	(3,831)
Profit before income tax		**78,829**	14,535
Income tax expense	*16*	**(22,567)**	(4,316)
Profit and total comprehensive income for the year		**56,262**	10,219
Profit attributable to:			
Owners of the Company		**33,703**	10,219
Non-controlling interest		**22,559**	–
		56,262	10,219
Earnings per share			
Basic	*15*	**1.40**	0.44
Diluted	*15*	**1.35**	0.44

The notes on pages 43 to 71 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

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

In thousands of US dollars	Share Capital	Contributed Surplus	Retained Earnings	Total	Non-controlling interest	Total equity
	Attributable to equity holders of the Company					
Balance at January 1, 2020	39,579	1,262	85,138	125,979	–	125,979
Profit and comprehensive income for the period	–	–	33,703	33,703	22,559	56,262
Contributions by and distributions to owners						
Stock options expensed	–	644	–	644	–	644
Share options exercised	(5)	(44)	–	(49)	–	(49)
Share options forfeited	–	(284)	–	(284)	–	(284)
Acquisition of subsidiary (note 4)	–	13,655	–	13,655	23,538	37,193
Acquisition of non-controlling interest (note 4)	47,419	(13,655)	(7,844)	25,920	(46,097)	(20,177)
Settlement of deferred share units	67	–	–	67	–	67
Dividends to equity holders	–	–	(5,047)	(5,047)	–	(5,047)
Total contributions by and distributions to owners	47,481	316	(12,891)	34,906	(22,559)	12,347
Balance at December 31, 2020	87,060	1,578	105,950	194,588	–	194,588

The notes on pages 43 to 71 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*	**2020**	2019
Cash flows from operating activities			
Profit for the year		**56,262**	10,219
Adjustments for:			
Depreciation	*7*	**12,400**	10,415
Amortization of intangible assets	*9*	**5,787**	2,935
Impairment of assets		**2,827**	366
Finance costs	*12, 19*	**3,368**	3,831
Unrealized foreign exchange losses (gains)		**(684)**	(1,327)
Share-based payment expense	*13, 14*	**2,203**	386
SRED tax credits	*17*	**(1,177)**	(537)
Current income tax expense	*16*	**25,943**	6,272
Deferred income tax recovery	*16*	**(3,376)**	(1,956)
Other		**118**	(4)
		103,671	30,600
Change in inventories		**(169)**	(1,893)
Change in trade and other receivables		**2,808**	(11,597)
Change in prepaid expenses		**(1,304)**	(286)
Change in trade and other payables		**26,891**	2,336
Change in provisions		**(50)**	(133)
Net change in non-cash or working capital balances		**28,176**	(11,573)
Interest paid		**(2,729)**	(3,094)
Income tax paid		**(24,719)**	(4,227)
Net cash provided by operating activities		**104,399**	11,706
Cash flows from investing activities			
Cash acquired on acquisition of subsidiary		**4,498**	–
Grant from government		**500**	–
Proceeds from sale of property, plant and equipment		**1,391**	–
Acquisition of property, plant and equipment	*7*	**(14,215)**	(17,261)
Acquisition of intangible assets	*9*	**(719)**	(2,220)
Net cash used in investing activities		**(8,545)**	(19,481)
Cash flows from financing activities			
Repayment of borrowings		**(8,750)**	(3,750)
Principal payments for lease liabilities		**(1,741)**	(1,614)
Payment of debt refinancing fees		**(717)**	(128)
Proceeds from new debt		**6,432**	–
Exercise of stock options (net of withholding taxes)		**(50)**	–
Repayment of share purchase loan	*10*	**248**	764
Issuance of share purchase loans	*10*	**–**	(364)
Share repurchases		**(178)**	–
Interest received on share purchase loans		**15**	9
Dividends paid	*14*	**(4,845)**	(4,913)
Net cash used in financing activities		**(9,586)**	(9,996)
Net (decrease) / increase in cash and cash equivalents		**86,268**	(17,771)
Cash and cash equivalents at January 1		**121**	17,862
Effect of exchange rate fluctuations on cash held		**581**	30
Cash and cash equivalents at December 31		**86,970**	121

The notes on pages 43 to 71 are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements ("CFS")

For the years ended December 31, 2020 and 2019
(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, health care, government, automotive and industrial markets (see Note 20).

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 % 2020 (2019)
AirBoss Rubber Compounding (NC) Inc. ("ANC")	North Carolina	100% (100%)
SunBoss Chemicals Corp.	Ontario	100% (100%)
AirBoss Flexible Products Co. ("AFP")	Michigan	100% (100%)
AirBoss Defense Group Ltd. ("ADG Canada") (formerly AirBoss Engineered Products Inc.)	Quebec	100% (100%)
AirBoss Defense Group, LLC ("ADG USA") (formerly Immediate Response Technologies, LLC)	Delaware	100% (100%)
Critical Solutions International, Inc. ("CSI")	Texas	100% (nil)

Following the merger between the Company's defense businesses and CSI on January 1, 2020 (see note 4, AirBoss Defense Group Transactions), the Company realigned the organizational and governance structures of its businesses to align them more closely with the nature of the Company's operations. Such realignment gave rise to changes in how the Company presents information for financial reporting and management decision-making purposes and resulted in a change in the Company's reporting segments. Consequently, as of January 1, 2020, the Company's operating segments are organized into the following reportable segments:

- Rubber Solutions - Includes manufacturing and distribution of rubber compounds and distribution of rubber compounding related chemicals.
- Engineered Products - Includes the manufacture and distribution of anti-noise, vibration and harshness dampening parts.
- AirBoss Defense Group - Includes the manufacture and distribution of personal protection and safety products, primarily for CBRN-E threats, and the manufacture of semi-finished rubber related products
- Unallocated Corporate Costs - Includes corporate activities and certain unallocated costs.

The Rubber Solutions segment consists of the former rubber solutions segment, excluding the Company's industrial products business line (which is now part of the AirBoss Defense Group Segment).The Engineered Products segment only consists of the Company's anti-vibration business. AirBoss Defense Group consists of the defense businesses and the Company's industrial products business line. The Company owned 55% of AirBoss Defense Group from January 1, 2020 until October 25, 2020 and acquired the remaining 45% ownership interest on October 26, 2020 (see note 4).

COVID-19

In March 2020, the World Health Organization declared COVID-19 a global pandemic. The impact of COVID-19 has been felt throughout the world, with significant disruptions to business operations, supply chains and customer demand; the imposition of quarantines; as well as considerable general concern and uncertainty. While a majority of the Company's operations have fallen within essential businesses classifications and have continued to operate throughout the pandemic, the Engineered Product segment's OEM customers shut down their operations in mid-March and as a result, the Company temporarily idled its automotive related operations from March through mid-May.This suspension had a negative impact on the segment's profitability and cash flows. A phased restart of the automotive operations began in May 2020, and continued into the second half of the year as OEMs began producing vehicles again. The ultimate business and economic impacts of COVID- 19 will depend on a variety of factors, including the possibility of future shutdowns, impacts on customers and suppliers, the rate at which economic conditions return to pre-COVID levels, any continued or future governmental orders or lock-downs due to any future wave of COVID-19, the potential for a recession in key markets due to the effect of the pandemic, and on the demand for the respective products that the Company and its customers produce.

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 9, 2021.

(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, intangible assets, accounting for income taxes, share-based payments, measurement of post-retirement benefits and fair value of assets acquired through business combination. Actual results may differ from these estimates.

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

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

Note 4 – fair value of assets acquired in a business combination

Note 5 – trade and other receivables

Note 6 – inventories

Note 8 – leases

Note 9 – intangible assets

Note 16 – income taxes

Note 17 – government assistance

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

Note 9 – intangible assets - key assumptions used in value-in-use calculations;

Note 13 – provisions;

Note 14 – capital and other components of equity;

Note 16 – income taxes;

Note 18 – commitments and contingencies; and

Note 19 – 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) Basis of consolidation

(i) Business combinations

The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. The Company elects to measure, on a transaction-by-transaction basis, non-controlling interest either at its fair value or at its proportionate share of the recognized amount of the identifiable net assets at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed, when necessary, to align them with the policies adopted by the Company.

(iii) Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

(b) 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).

(c) 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) Derecognition

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.

(d) 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.

(e) 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 and whenever events or changes in circumstances indicate that the carrying amount of the cash-generating unit likely exceeds its recoverable amount. 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 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
- brands, patents and trademarks 10 years

(f) 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.

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

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

(h) 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.

(i) 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.

(j) Government assistance

Government assistance is recognized as a reduction of the related expense or cost of the asset acquired in the period the expenditure is recognized, unless the conditions for receiving the assistance are met after the related expenditure has been recognized. In this case, the assistance is recognized when it becomes receivable.

(k) Lease payments

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 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) New Standards adopted

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 were 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 did not have a material impact on the consolidated financial statements.

Amendments to IFRS 16, Leases

On May 28, 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16). The amendments are effective for annual periods beginning on or after June 1, 2020, with earlier adoption permitted. The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021.This amendment did not have a material impact on the consolidated financial statements.

(q) Future Accounting Standards

Amendments to IAS 1, *Presentation of Financial Statements*

The amendments clarify the classification of liabilities as current or non-current. For the purposes of non-current classification, the amendments remove the requirement for a right to defer settlement of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period in order to qualify for non-current classification. The amendments are effective from January 1, 2023 and the Company is assessing the impact of adopting these amendments on its consolidated financial statements.

Amendments to IFRS 9, *Financial Instruments* and IFRS 7, *Financial Instruments: Disclosures*

Under the amendments a company will not have to derecognize the carrying amount of financial instruments for changes required by the ongoing reform of inter-bank offered rates and other interest rate benchmarks, but change the effective interest rate to reflect the new benchmark rate. The amendments are effective January 1, 2021. This amendment is not expected to have a material impact on the consolidated financial statements.

NOTE 4 AIRBOSS DEFENSE GROUP TRANSACTIONS

On January 1, 2020, the Company closed the previously announced transaction to form the AirBoss Defense Group segment ("ADG") through the merger of its AirBoss Defense businesses and other operations in Acton Vale, Quebec with CSI. CSI is a U.S.-based company and is the leading global supplier of route clearance vehicles; countermine capability and survivability products to U.S. and foreign military forces. This merger created a dedicated defense player better positioned to capitalize on emerging opportunities arising from the current geopolitical environment by combining AirBoss Defense's strengths in manufacturing and engineering design with CSI's expertise in global marketing and distribution of defense products. The merger also diversified the Company's product offerings and provides significant cross-selling opportunities to an increasingly global combined customer base.

The Company contributed the shares of ADG Canada and the membership interests of ADG USA to newly formed Canadian and U.S. entities that formed AirBoss Defense Group, in exchange for a note receivable of $45,000 and equity interests. Critical Solutions Holdings Inc. ("CSH") contributed all the shares of CSI and transferred a $15,000 receivable from CSI in exchange for equity interests. Following these transactions AirBoss owned 55% of the equity in ADG and a $60,000 Vendor Takeback Notes due from ADG, with the remaining 45% of the equity interest in ADG owned by CSH. The acquisition of control of the CSI business has been accounted for as a business combination and recognized at fair value. The sale of a non-controlling interest in the Company's former ADG Canadian and US businesses resulted in a gain of $13,655, which is recognized in other equity.

Acquisition-related costs

The Company incurred acquisition-related costs of $2,384 on professional fees and due diligence costs in 2020 and $1,401 in 2019 related to this transaction. These costs have been included in "general and administrative expenses".

Identifiable assets acquired and liabilities assumed

The following table summarizes the recognized amounts of identifiable assets acquired and liabilities assumed at the acquisition date on the basis of management's estimates of fair values as follows:

In thousands of US dollars

Fair value of assets acquired:	
Cash and cash equivalents	4,498
Trade and other receivables	2,203
Prepaid expenses	184
Inventories	3,360
Property, plant, and equipment	1,335
Customer relationships	17,900
Brand	6,000
Other intangible assets	2,150
Investments	493
Total assets	38,123
Value of liabilities assumed:	
Trade and other payables	3,758
Vendor Takeback Note	15,000
Total liabilities assumed	18,758
Net assets acquired	19,365

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

Goodwill

Goodwill arising from the acquisition has been recognized as follows:

In thousands of US dollars	
Consideration transferred:	
NCI, based on their proportionate interest in ADG Canada, ADG USA and CSI	23,538
Paid in capital on dilution of ownership interest in ADG Canada and ADG USA	13,655
Vendor Takeback Note transferred from CSH	(15,000)
Less: Fair value of net assets acquired	**(19,365)**
Goodwill	2,828

Non-controlling interest ("NCI") was measured using the fair value method.

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

Acquisition of non-controlling interest in ADG

On October 26, 2020, the Company acquired the 45% ownership of AirBoss Defense Group held by CSH in return for 3.5 million shares of the Company having a fair value of $47,597 (less issuance costs of $178) and $20,000 (see note 12), with $5,000 paid at closing, and installments of $5,000 paid at each three-month anniversary. The fair value of the Company's shares issued was based on the listed share price at October 23, 2020 of CAD $17.87 per share. The excess of the total consideration over the carrying value of the non-controlling interest of $46,097 was accounted in the contributed surplus of $13,655 and retained earnings of $7,844.

NOTE 5 TRADE AND OTHER RECEIVABLES

December 31 *In thousands of US dollars*	**2020**	2019
Trade receivables	**66,692**	67,900
Less: expected credit loss	**(750)**	(481)
	65,942	67,419
Other receivables	**2,660**	1,471
	68,602	68,890

Impairment losses

The aging of trade receivables at the reporting date was:

	2020		2019	
December 31 *In thousands of US dollars*	**Gross**	**Impairment**	Gross	Impairment
Within terms	**49,544**	**–**	50,875	–
Past due 0-30 days	**12,621**	**–**	12,769	–
Past due 31-120 days	**4,527**	**(750)**	4,256	(481)
	66,692	**(750)**	67,900	(481)

The continuity of the allowance for impairment was:

For the year ended December 31 *In thousands of US dollars*	**2020**	2019
Balance at January 1	**(481)**	(399)
Impairment loss recognized	**(755)**	(296)
Collected	**486**	214
Balance at December 31	**(750)**	(481)

NOTE 6 INVENTORIES

December 31 *In thousands of US dollars*	**2020**	2019
Raw materials and consumables	**33,147**	30,371
Work in progress	**3,743**	3,435
Finished goods	**14,229**	11,368
Inventory in transit	**863**	412
	51,982	45,586
Provisions	**(6,457)**	(3,590)
	45,525	41,996

An inventory charge of $2,867 (2019: charge of $735) was included in cost of sales.

NOTE 7 PROPERTY, PLANT AND EQUIPMENT

In thousands of US dollars	Land and buildings	Plant and equipment[1]	Furniture and equipment	Under construction	Total
Cost					
Balance at January 1, 2019	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
Acquisition of subsidiary	–	–	1,335	–	1,335
	1,602	10,482	293	2,510	14,887
Government grant	–	–	–	(500)	(500)
Disposals	(1,933)	(1,176)	(70)	–	(3,179)
Transfers	4,898	4,156	(374)	(8,680)	–
Balance at December 31, 2020	40,807	102,830	3,819	5,861	153,317
Accumulated depreciation					
Balance at January 1, 2019	7,314	41,652	1,629	–	50,595
Depreciation for the period	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
Depreciation for the period	2,530	9,450	420	–	12,400
Impairment	–	820	–	–	820
Disposals	(562)	(1,171)	(29)	–	(1,762)
Transfers	2,824	(2,846)	22	–	–
Balance at December 31, 2020	14,477	55,410	2,176	–	72,063

(1) includes right of use assets. See note 8 for additional details.

Carrying amounts

In thousands of US dollars	Land and buildings	Plant and equipment	Furniture and equipment	Under construction	Total
At December 31, 2019	26,555	40,211	872	12,531	80,169
At December 31, 2020	26,330	47,420	1,643	5,861	81,254

Depreciation expense of $11,774 (2019: $9,910) was charged to costs of sales, $541 (2019: $445) was charged to general and administrative expense and $85 (2019: $60) was charged to research and development expenses.

During 2020, the Company reviewed operations at AirBoss Defense Group's Acton Vale facility which resulted in a change in the expected usage of certain molding and tooling equipment that were previously amortized over units of production basis. The equipment is now expected to remain in production for one more year. The effect of this change increased depreciation expense included in cost of sales by $1,323.

Impairment

The Engineered Products segment will make investments to replace certain equipment to improve production efficiency. The equipment to be replaced was taken out of production and is no longer in use. Management estimated the equipment's recoverable amount was nil and the Company recorded an impairment loss of $743. In addition, the Rubber Solutions segment removed an asset from service and recorded a $77 impairment charge.

NOTE 8 LEASES

The Company leases some of its plants, offices, and equipment. The majority of the Company's leases are for buildings, which have remaining terms between 1 and 8 years.

Right-of-Use Assets

In thousands of US dollars	Land and buildings	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
Lease additions	–	671	671
Balance at December 31, 2020	13,525	1,852	15,377
Accumulated depreciation			
Balance at January 1, 2019	–	–	–
Depreciation	1,310	161	1,471
Balance at December 31, 2019	1,310	161	1,471
Depreciation	1,465	304	1,769
Balance at December 31, 2020	2,775	465	3,240
Carrying amount at December 31, 2019	12,215	1,020	13,235
Carrying amount at December 31, 2020	10,750	1,387	12,137

Lease Liabilities

Interest expense on lease liabilities of $685 (2019: $449) is included in Finance Costs.

Cash outflow related to leases was $2,426 (2019: $2,063).

The future undiscounted contractual lease payments are as follows:

In thousands of US dollars	**Total**	**2021**	**2022**	**2023**	**2024**	**2025**	**Thereafter**
Lease payments	16,404	2,426	2,047	1,909	1,795	1,673	6,554

NOTE 9 INTANGIBLE ASSETS

In thousands of US dollars	Goodwill	Customer Relationships	Brands, Patents and Trademarks	Software and Development costs	Total
Cost					
Balance at January 1, 2019	32,225	28,250	1,532	5,285	67,292
Purchases	–	–	926	1,311	2,237
Transfers	–	–	–	(95)	(95)
Balance at December 31, 2019	32,225	28,250	2,458	6,501	69,434
Acquisition of subsidiary	2,828	17,900	8,150	–	28,878
Purchases	–	–	86	633	719
Impairment	–	–	(2,007)	–	(2,007)
Disposals	–	–	–	(173)	(173)
Balance at December 31, 2020	35,053	46,150	8,687	6,961	96,851
Accumulated Amortization					
Balance at January 1, 2019	–	12,612	–	4,046	16,658
Amortization for the year	–	2,825	–	110	2,935
Transfers	–	–	–	(94)	(94)
Balance at December 31, 2019	–	15,437	–	4,062	19,499
Amortization for the year	–	4,702	819	266	5,787
Disposals	–	–	–	(209)	(209)
Balance at December 31, 2020	–	20,139	819	4,119	25,077
Carrying amounts					
At December 31, 2019	32,225	12,813	2,458	2,439	49,935
At December 31, 2020	35,053	26,011	7,868	2,842	71,774

Amortization expense of $5,787 (2019: $2,935) was charged to general and administrative expense. Remaining amortization for customer relationships acquired is 3 to 9 years and patents and trademarks is 4 to 9 years.

Goodwill

December 31 *In thousands of US dollars*	**2020**	2019
Defense business within AirBoss Defense Group	**24,988**	22,160
Engineered Products	**10,065**	10,065
	35,053	32,225

Impairment

The AirBoss Defense Group segment has been working on the development of certain next generation portfolio products for several years. The product development pipeline has been re-prioritized and revised as a result of the Company's response to the COVID-19 pandemic, particularly with respect to improved manufacturability and enhanced features of its core product portfolio. As such, the Company has determined that certain product development costs for predecessor products will no longer form part of the survivability platform. Management estimated the recoverable amount of these development costs was nil and the Company has recorded an impairment loss of $2,007.

Goodwill

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, 2020 and December 31, 2019, 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 cash generating 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 11.7 to 13.6% determined using risk-adjusted returns from comparable companies adjusted for the Company's capital structure.
- Terminal multiple based on market capitalization
- Projected sales and margins 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 for operating expenses based on past experiences and future growth trends.

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 continuous improvement 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 defense 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 10 OTHER ASSETS

In thousands of US dollars	Share purchase loan	Other	Total
Balance at January 1, 2019	1,284	446	1,730
Accrued interest	16	–	16
Interest paid	(9)	–	(9)
Repayment of loan	(764)	–	(764)
New loan issuances	364	–	364
Effect of movements in exchange rates	70	–	70
Balance at December 31, 2019	961	446	1,407
Acquired on acquisition of subsidiary (note 4)	–	493	493
Accrued interest	11	–	11
Interest paid	(15)	–	(15)
Repayment of loan	(248)	–	(248)
Effect of movements in exchange rates	(5)	–	(5)
Balance at December 31, 2020	704	939	1,643

NOTE 11 DERIVATIVES NOT DESIGNATED IN A FORMAL HEDGING RELATIONSHIP

Foreign exchange hedge

At December 31, 2020, the Company had contracts to sell USD $16,031 from January 2021 to July 2021 for Canadian dollars ("CAD") $21,200. The fair value of these contracts, representing an unrealized gain of $620, 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 $362 (2019: gain of $1,254), are recorded on the statement of profit as other income (expense).

At December 31, 2019, the Company had contracts to sell USD $19,715 from January 2020 to November 2020 for 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.

Interest rate swap

In December 2020, the Company entered into an interest rate swap agreement for a notional amount of $28,125 amortizing down to $24,375 at maturity on January 1, 2023. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 0.265%. This swap agreement replaces an old swap agreement that matured in December 2020 that calculated interest based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%. At December 31, 2019 the notional amount of the old swap agreement was $28,000.

During 2020, interest expense on the swap agreements was $264 (2019: income of $179).

At December 31, 2020, the fair value of this agreement, representing a loss of $57 (2019: loss of $19), is included in loans and borrowings on the statement of financial position. The change in the fair value, representing a loss of $37 (2019: loss of $453), is recorded on the statement of profit as finance costs.

The Company entered into these interest rate swap agreements 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 12 LOANS AND BORROWINGS

December 31 *In thousands of US dollars*	**2020**	2019
Non-current		
Term debt	**52,500**	56,250
Lease liabilities	**11,670**	12,953
Less: deferred financing	**(519)**	(417)
	63,651	68,786
Current		
Term debt	**3,807**	3,769
Forgivable loan from US government (note 17)	**6,464**	–
Due to former non-controlling interest (note 4)	**15,000**	–
Lease liabilities	**1,812**	1,589
	27,083	5,358

December 31 *In thousands of US dollars*	**2020**	2019
Term debt	**56,307**	60,019
Forgivable loan from US government (note 17)	**6,464**	–
Due to former non-controlling interest (note 4)	**15,000**	–
Lease liabilities	**13,482**	14,542
Subtotal	**91,253**	74,561
Less principal due within one year	**(27,083)**	(5,358)
	64,170	69,203
Less deferred financing	**(519)**	(417)
	63,651	68,786

The Company's current credit facilities are comprised of a $60,000 revolving facility, a term loan (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 term loan is amortized by specific installments of quarterly principal payments, along with monthly interest payments. The credit facility includes terms to replace LIBOR with a suitable replacement as that issue develops. The replacement of LIBOR is not expected to have an impact on the consolidated financial statements.

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 the term of the credit facilities and $614 (2019: $306) has been amortized and is included in finance costs.

Interest expense on the term debt was $1,439 (2019: $2,581).

Principal repayments on the loans and borrowings are as follows:

In thousands of US dollars	**Total**	**2021**	**2022**	**2023**	**2024**	**2025**	**Thereafter**
Term loan	56,307	3,807	3,750	48,750	–	–	–
Forgivable loan from US government	6,464	6,464	–	–	–	–	–
Due to former non-controlling interest	15,000	15,000	–	–	–	–	–
Lease liabilities	13,482	1,812	1,520	1,455	1,403	1,340	5,952
	91,253	27,083	5,270	50,205	1,403	1,340	5,952

As at December 31, 2020, $732 was drawn against the revolving credit facility to issue letters of credit (2019: nil drawn). 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, 2020 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	**2020**	2019	**2020**	2019
Term debt	**55,788**	59,602	**56,239**	60,027
Forgivable loan from US government	**6,464**	–	**6,447**	–
Due to former non-controlling interest	**15,000**	–	**14,847**	–
Lease liabilities	**13,482**	14,542	**15,041**	14,927

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 1.90% (2019: 3.48%) for the term loan and lease liabilities.

NOTE 13 PROVISIONS

In thousands of US dollars	Site restoration	Performance awards and Deferred stock units	Lease incentives	Total
Balance at January 1, 2019	74	481	199	754
Impact of change in accounting policy	–	–	(199)	(199)
Provisions accrued during the year	–	313	–	313
Payments during the year	–	(133)	–	(133)
Forfeitures during the year	–	(32)	–	(32)
Foreign exchange	–	26	–	26
Balance at December 31, 2019	74	655	–	729
Less amount due within one year	–	(103)	–	(103)
	74	552	–	626
Provisions accrued during the year	–	1,936	–	1,936
Payments during the year	–	(117)	–	(117)
Forfeitures during the year	–	(93)	–	(93)
Foreign exchange	–	176	–	176
Balance at December 31, 2020	74	2,557	–	2,631
Less amount due within one year	–	(573)	–	(573)
	74	1,984	–	2,058

Performance Awards

The Company has issued certain executives with an aggregate of 201,210 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 1.5, 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	**2020**	2019
January 1	**83,998**	114,908
New issuances	**191,233**	26,643
Forfeitures	**(46,906)**	(14,563
Settlements	**(27,115)**	(42,990)
December 31	**201,210**	83,998

During 2020, the Company recognized as employee costs $1,149 (2019: $74) 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	**2020**	2019
January 1	**72,672**	43,088
New issuances	**31,976**	29,584
Settlements	**(7,588)**	–
December 31	**97,060**	72,672

During 2020, the Company recognized as employee costs $694 (2019: $207) related to DSUs issued under the Omnibus Plan.

NOTE 14 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, 2020, 988,394 shares are available (2019: 1,744,370).

Issued share capital is as follows:

In thousands of shares	**2020**	2019
January 1	**23,392**	23,392
Issued to acquire subsidiary	**3,500**	–
Exercise of share options	**9**	–
Settlement of deferred share units	**8**	–
December 31	**26,909**	23,392

Issuance of common shares

During 2020, 23,974 options were exercised resulting in the issuance of 8,772 common shares (2019: nil options exercised).

In November 2020, the Company renewed its normal course issuer bid ("NCIB") to purchase up to 500,000 of its common shares, representing approximately 3.8% of the Company's public float. The Company purchased nil shares (2019: nil) under its NCIB in 2020.

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, 2020, are as follows:

Range of exercise price ($CAD)	**Options outstanding Quantity**	**Weighted average contract life**	**Options exercisable Quantity**
5.14	1,314,235	4.23	–
9.49	151,258	3.41	35,262
10.98	33,200	1.86	24,900
11.56	3,999	2.22	1,510
12.26	2,992	1.22	2,587
16.30	25,000	4.42	–
16.69	66,370	0.25	66,370
17.53	8,372	4.87	–
	1,605,426		130,629

Options granted and outstanding:

A summary of the status of the Company's stock option plan as of December 31, 2020 and 2019 and changes during the years then ended, is presented below:

	2020		2019	
	Quantity	**Weighted average exercise price ($CAD)**	Quantity	Weighted average exercise price ($CAD)
Outstanding beginning of year	**438,204**	**12.26**	519,272	13.25
Granted	**1,616,925**	**5.38**	197,261	9.49
Exercised	**(23,974)**	**10.80**	–	–
Forfeited	**(425,729)**	**8.24**	(278,329)	12.14
Outstanding end of year	**1,605,426**	**6.42**	438,204	12.26

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	November 2020	June 2020	March 2020	May 2019
Fair value at grant date	$ 4.67	$ 5.06	$ 0.66	$ 2.04
Share price at grant date	$ 16.68	$ 16.68	$ 4.84	$ 9.58
Exercise price	$ 17.53	$ 16.30	$ 5.14	$ 9.49
Expected volatility (weighted average volatility)	39.4%	39.7%	32.6%	30.7%
Option life (expected weighted average life)	5 years	5 years	5 years	5 years
Expected annual dividend rate	1.7%	1.7%	5.8%	2.9%
Risk-free interest rate (based on government bonds)	0.5 %	0.4%	0.8%	1.5%

The stock options issued vest as follows:

	Quantity
Vested at December 31, 2020	130,629
2020	385,517
2021	376,812
2022	375,567
2023	336,901
	1,605,426

Stock option expense

During 2020, the Company recognized as employee costs $360 (2019: $105) 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 2020 and in 2019 as follows:

	2020		2019	
Shareholder of record at:	**$CAD/share**	**Date Paid**	$CAD/share	Date Paid
March 31	**0.07**	**April 15, 2020**	0.07	April 15, 2019
June 30	**0.07**	**July 15, 2020**	0.07	July 15, 2019
September 30	**0.07**	**October 15, 2020**	0.07	October 15, 2019
December 31	**0.07**	**January 15, 2021**	0.07	January 15, 2020
	0.28		0.28	

The dividend payable at December 31, 2020 was $1,479 (2019: $1,261).

NOTE 15 EARNINGS PER SHARE

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

For the year ended December 31 *In thousands of US dollars except per share amounts*	**2020**	2019
Numerator for basic and diluted earnings per share:		
Net income	**33,703**	10,219
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	**24,032**	23,392
Dilution effect of stock options	**787**	–
Dilution of effect of deferred stock units	**82**	53
Diluted weighted average number of shares outstanding	**24,901**	23,445
Net income per share:		
Basic	**1.40**	0.44
Diluted	**1.35**	0.44

As of December 31, 2020, 74,742 options (2019: 438,204) 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 16 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:

For the year ended December 31 *In thousands of US dollars*	**2020**	2019
Combined federal and provincial statutory income tax	**20,889**	3,852
Foreign tax differential	**(890)**	456
Effect of permanent differences	**374**	(286)
Change in tax rates and new legislation	**(186)**	26
Difference arising on filing and assessments	**3**	(100)
Deductible temporary differences not recognized	**2,367**	667
Other	**10**	(299)
Total expense	**22,567**	4,316
The components of the provision for income taxes are as follows:		
Current	**25,943**	6,272
Deferred	**(3,376)**	(1,956)
Total	**22,567**	4,316

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*	**2020**	2019
Deferred income tax assets:		
Non-capital income tax loss carry-forwards	**2,400**	4,327
Deferred income tax deductions relating to long-term liabilities	**191**	150
Equity Compensation	**647**	164
Alternative minimum tax	**–**	49
Capital assets	**122**	138
Reserve	**6,289**	–
Other	**101**	541
	9,750	5,369
Deferred income tax liabilities:		
Capital assets	**(9,350)**	(8,418)
Other	**(137)**	(64)
	(9,487)	(8,482)
Net deferred income tax liabilities	**263**	(3,113)
Recorded on the consolidated statement of financial position:		
Deferred income tax assets	**3,973**	846
Deferred income tax liabilities	**(3,710)**	(3,959)
Net	**263**	(3,113)

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 $42,935 of unused tax losses (2019: $29,147) available to offset future income taxes in the US. 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 taxable temporary differences associated with investments in subsidiaries, branches and associated and interests in joint ventures, for which no deferred income tax liabilities have been recognized, is $32,304 (2019: deductible temporary differences of $28,553).

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	**2020**		2019	
In thousands of US dollars	**Gross amount**	**Tax effect**	Gross amount	Tax effect
Capital losses	**918**	**142**	918	142
Operating losses	**31,850**	**6,688**	980	229
Deductible temporary differences	**17,691**	**3,759**	–	–
	50,459	**10,589**	1,898	371

NOTE 17 GOVERNMENT ASSISTANCE

During 2020, Rubber Solutions recognized grants of $15 (2019: $118) as a reduction of expenses and $500 as a reduction of capital assets (2019: nil).

Scientific research and investment tax credits of $1,177 were recognized in 2020 (2019: $537); research and development costs were reduced accordingly.

On May 1, 2020, the Company received a $6,422 loan pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, to fund certain payroll and business expenses of the Company's Michigan and North Carolina operations. This loan bears interest at 1.0% and matures on May 1, 2022 and may be prepaid at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, group health care benefits, rent, and utilities. The Company used the entire loan amount for qualifying expenses. The loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

In April 2020, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") for Canadian employers affected by COVID-19, retroactive to March 15, 2020. CEWS provides a wage subsidy to eligible employers based on certain criteria, including demonstration of revenue declines as result of COVID-19. The Company applied for CEWS and recorded the subsidy as a reduction to cost of sales and operating expenses of $7,216 and $1,654, respectively, in the consolidated statement of profit.

NOTE 18 COMMITMENTS AND CONTINGENCIES

Commitments

The Company has purchase commitments of $15,361 (2019: $10,770) for raw materials. Delivery on these commitments is expected in 2021.

Litigation

No legal provisions are recognized at December 31, 2020 and 2019.

NOTE 19 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 ADG Canada, which are unfunded defined benefit plans covering life insurance.

The methods of accounting, assumptions and frequency of valuations for 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, 2020, the weighted average duration of the defined benefit obligation was 11 years (2019: 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*	**2020**	2019
Statement of Financial Position obligations for Benefit Plan	**664**	510
Statement of Profit charge for Benefit Plan	**43**	43

December 31 *In thousands of US dollars*	**2020**	2019
Present value of unfunded obligation and Liability in the Statement of Financial Position	**664**	510
Movement in the defined benefit obligation is as follows:		
At January 1	**510**	474
Current service cost	**3**	2
Interest cost	**14**	17
Benefit payment	**(94)**	(41)
Actuarial loss	**218**	34
Foreign currency translation	**13**	24
	664	510
At December 31		
The amounts recognized in the Statement of Profit is as follows:		
Post-retirement benefits expense	**136**	2
Interest cost	**15**	17
Foreign currency translation	**13**	24
Expense	**164**	43

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*	**2020**	2019
The principal actuarial valuation assumptions used were as follows:		
Discount rate	**2.35%**	3.00%
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	2020	2019
Effect of an increase of 1%		
Post-employment benefit obligation	**(66)**	(56)
Effect of a decrease in 1%		
Post-employment benefit obligation	**83**	70
Mortality Sensitivity Analysis		
Effect of an increase of 10% on mortality rates		
Post-employment benefit obligation	**7**	1
Effect of a decrease of 10% on mortality rates		
Post-employment benefit obligation	**(8)**	(1)

Defined Contribution Plan

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 2020 were $420 (2019: $341).

AFP maintains a 401(k) defined contribution plan for its employees. Total contributions and expense to this plan during 2020 were $512 (2019: $430).

ANC maintains a 401(k) plan for its employees. Total contributions and expense to this plan during 2020 were $78 (2019: $69).

ADG USA maintains a 401(k) defined contribution plan for its employees. Total contributions and expense to this plan during 2020 were $106 (2019: $90).

ADG Canada employees are covered under various registered and unregistered defined contribution plans. Total contribution and expense to these plans for 2020 were $217 (2019: $179).

CSI maintains a 401(k) defined contribution plan for its employees. Total contribution and expense to these plans for 2020 were $271.

Multi-Employer Pension Plan

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

(a) Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

(b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

(c) If 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 2020, the Company made contributions of $257 (2019: $273) to the multi-employer pension plan. The unfunded vested benefit ratio was 12.8% at December 31, 2020 (2019: 17.0%). The Steel Workers Pension Trust was in a net deficit at December 31, 2020 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 20 SEGMENTED INFORMATION

Following the merger between the AirBoss Defense business and CSI on January 1, 2020, the Company realigned the organizational and governance structures of its businesses to align them more closely with the nature of the Company's operations. Such realignment gave rise to changes in how the Company presents information for financial reporting and management decision-making purposes and resulted in a change in the Company's reporting segments. Consequently, as of January 1, 2020, the Company's operating segments are organized into the following reportable segments:

- Rubber Solutions - Includes manufacturing and distribution of rubber compounds and distribution of rubber compounding related chemicals
- Engineered Products - Includes the manufacture and distribution of anti-noise, vibration and harshness dampening parts
- AirBoss Defense Group - Includes the manufacture and distribution of personal protection and safety products, primarily for CBRN-E threats, and the manufacture of semi-finished rubber related products
- Unallocated Corporate Costs - Includes corporate activities and certain unallocated costs.

The Rubber Solutions segment will consist of the former rubber solutions segment, excluding the Company's industrial products business line (which is now part of the AirBoss Defense Group Segment).The Engineered Products segment will only consist of the Company's anti-vibration business. AirBoss Defense Group consists of the defense businesses and the Company's industrial products business line.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before finance costs and income tax, as included in the internal management reports that are reviewed by the Company's CEO/Chairman and President. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Transfer pricing is based on third-party rates.

Comparative period segment disclosures have been recast to reflect the changes in the Company's reporting segments. Information regarding the results of each reportable segment is included below. Inter-company amounts, which represent items purchased from different segments, have been presented within the segment disclosure and are eliminated to arrive at the consolidated amounts.

For the year ended December 31	Rubber Solutions		Engineered Products		AirBoss Defense Group		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Segment net sales	**119,090**	137,517	**114,557**	124,887	**302,278**	85,577	**–**	–	**535,925**	347,981
Inter-segment net sales	**(17,824)**	(17,318)	**(12,254)**	–	**(4,275)**	(2,537)	**–**	–	**(34,353)**	(19,855)
External net sales	**101,266**	120,199	**102,303**	124,887	**298,003**	83,040	**–**	–	**501,572**	328,126
Depreciation, amortization, and impairment	**3,351**	4,192	**5,837**	4,642	**11,488**	4,700	**338**	182	**21,014**	13,716
Segment measure of profit (loss)	**11,452**	14,482	**(7,166)**	(4,307)	**87,846**	12,018	**(9,935)**	(3,827)	**82,197**	18,366
Finance costs									**(3,368)**	(3,831)
Income tax expense									**(22,567)**	(4,316)
Profit									**56,262**	10,219
Segment assets	**82,150**	76,720	**75,597**	79,471	**198,450**	89,226	**11,172**	4,247	**367,369**	249,664
Segment liabilities	**25,856**	20,560	**22,788**	24,314	**42,396**	14,153	**81,741**	64,658	**172,781**	123,685
Capital additions	**3,840**	10,869	**5,665**	10,507	**5,455**	4,001	**646**	1,323	**15,606**	26,700

Geographical segments

The Company operates manufacturing facilities and sales offices in the US and Canada, selling primarily in North American markets.

In presenting information on the basis of geographical segments, segment net sales is based on the geographical location of customers. Segment assets are based on the geographical location of the assets. Non-current assets include property, plant and equipment, software, goodwill, future income taxes and other assets.

For the year ended December 31 *In thousands of US dollars*	**2020**		2019	
	Net sales	**Non-current assets**	Net sales	Non-current assets
Canada	**62,686**	**45,357**	62,522	48,429
United States	**409,728**	**113,287**	235,898	83,082
Other countries	**29,158**	**–**	29,706	–
	501,572	**158,644**	328,126	131,511

Major customers

Net sales from one customer represent approximately 19% (2019: 9%) of consolidated net sales in 2020. Five customers represented 48% (2019: 31%) of consolidated net sales in 2020.

Major Products

In thousands of US dollars	**2020**	2019
Rubber Solutions		
Tolling	**7,315**	9,729
Mixing	**93,951**	110,470
	101,266	120,199
Engineered Products	**102,303**	124,887
AirBoss Defense Group		
Defense	**271,429**	54,657
Industrial	**26,574**	28,383
	298,003	83,040
	501,572	328,126

NOTE 21 RELATED PARTIES

Related Party Transactions

During the year, the Company paid rent for the corporate office of CAD $180 (2019: 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 $29 (2019: $28) to a company in which the CEO and Chairman is an officer.

Transactions with key management personnel

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

December 31 *In thousands of US dollars*	**2020**	2019
Salaries and other short-term benefits	**4,840**	4,154
Share-based payment expense	**2,200**	352
	7,040	4,506

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 20.5% of the outstanding common shares as at December 31, 2020 (2019: 26.3%).

During 2014, the Company provided a share purchase loan of CAD $1,000 to the former 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 former Chief Financial Officer that was repaid in June 2020. In March 2018, the Company provided a share purchase loan of CAD $500 to the President and Chief Operating Officer. On June 28, 2019, the Company provided share purchase loans of CAD $300 to the Executive Vice President, General Counsel; CAD $92 to the President and Chief Operating Officer; and CAD $100 to the former Vice-President Human Resources that was repaid in April 2020. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or the fifth anniversary of the issuance date. All share purchase loans issued prior to 2019 bear interest at 1% annually and all subsequent loans share purchase loans bear interest at 2% annually. In all cases, loans are full recourse and interest is due and payable semi-annually. In total, 86,807 shares of the Company having a fair value of $1,075 were pledged as collateral on these loans. At December 31, 2020, the loan receivables of $704, including accrued interest, were included in other assets. During the year interest of $15 was paid (2019: $9).

NOTE 22 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, chemicals for rubber mixing, steel and silicone used in the production of its products. The price and availability of these raw materials are subject to fluctuations from such factors as weather, exchange rates, 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	
in millions of US dollars	**2020**	2019
Natural and synthetic rubber	**(4.81)**	(3.38)
Chemicals (Rubber mixing)	**(2.70)**	(2.40)
Steel	**(2.28)**	(3.24)
Carbon black	**(1.90)**	(1.84)
Silicone	**(0.81)**	(0.86)
	(12.50)	(11.72)

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	
in millions of US dollars	**2020**	2019
Sales (1)	**(3.9)**	(2.4)
Purchases (2)	**5.2**	6.8

(1) Based upon Canadian dollar-denominated sales
(2) Based upon Canadian dollar-denominated 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 December 2020, the Company entered into an interest rate swap agreement for a notional amount of $28,125 amortizing down to $24,375 at maturity on January 1, 2023. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 0.265%. This swap agreement replaces an old swap agreement that matured in December 2020 that calculated interest based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%. At December 31, 2019 the notional amount of the old swap agreement was $28,000.

During 2020, interest expense on the swap agreements was $264 (2019: income of $179).

At December 31, 2020, the fair value of this agreement, representing a loss of $57 (2019: loss of $19), is included in loans and borrowings on the statement of financial position. The change in the fair value, representing a loss of $37 (2019: loss of $453), is recorded on the statement of profit as finance costs.

The Company entered into these interest rate swap agreements 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*	**2020**	2019
Fixed rate instruments		
Financial assets	**1,324**	1,418
Financial liabilities	**(28,539)**	(14,542)
Variable rate instruments		
Financial liabilities	**(55,788)**	(60,000)
Total	**(83,003)**	(73,124)

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
2020		
Variable rate instruments	**7**	**(7)**
2019		
Variable rate instruments	(213)	213

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

Credit Risk

The Company held cash and cash equivalents of $86,970 at December 31, 2020 (2019: $121), 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 5), 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 19% (2019: 9%) of consolidated net sales in 2020. Five customers represented 48% (2019: 31%) of consolidated net sales in 2020.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 $86,970 and drawn $723 against its $60,000 revolving credit facilities (2019: cash of $121 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, 2020

In thousands of US dollars	**Amortized cost**	**Fair value through profit and loss**	**Total carrying amount**	**Total fair value**
Cash and cash equivalents	86,970	–	86,970	86,970
Trade and other accounts receivable	68,602	–	68,602	68,602
Foreign Exchange Hedge	–	620	620	620
Share Purchase loans	704	–	704	704
Total financial assets	156,276	620	156,896	156,896
Trade and other payables	74,295	–	74,295	74,295
Interest rate swap	–	57	57	57
Loans and borrowings	90,677	–	90,677	92,574
Total financial liabilities	164,972	57	165,029	166,926

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
Foreign Exchange Hedge	–	457	457	457
Share Purchase loans	961	–	961	961
Total financial assets	69,972	457	70,429	70,429
Trade and other payables	44,047	–	44,047	44,047
Interest rate swap	–	19	19	19
Loans and borrowings	74,125	–	74,125	75,215
Total financial liabilities	118,172	19	118,191	119,281

The fair value of the share purchase loans and long-term loan has been based on market interest rate (level 2) in 2020 and 2019. 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 2020 and 2019. There were no transfers between levels of the fair value hierarchy in 2020 and 2019.

Capital Management

The Company has defined its capital as follows:

December 31 *In thousands of US dollars*	**2020**	2019
Loans and borrowings	**90,734**	74,144
less: leases included in loans and borrowings	**(13,482)**	(14,542)
less: cash and cash equivalents	**(86,970)**	(121)
Net debt	**(9,718)**	59,481
Shareholders' equity	**194,588**	125,979
	184,870	185,460

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 20.5% 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 2020, the Company renewed its normal course issuer bid ("NCIB") to purchase up to 500,000 of its common shares, representing approximately 3.8% of the Company's public float. The Company purchased nil shares (2019: nil) under its NCIB in 2020.

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

NOTE 23 SUBSEQUENT EVENT

On March 8, 2021, CSI agreed to acquire 100% ownership of BlackBox Biometrics, Inc. ("B3"). CSI currently holds a 2.5% minority interest in B3 and exclusive sales rights of the Blast Gauge System to the U.S. military. CSI will acquire B3 for up to $27,000, to be satisfied through $7,000 in cash upon closing and up to $20,000 in royalties over eight years, based on revenues earned from B3 products. The transaction is subject to customary closing conditions and is expected to close during the second quarter of 2021.

NOTE 24 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 (1)
Waterloo, Ontario

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

Stephen Ryan (2)
Washington, D.C.

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

AirBoss of America Corp.

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.airboss.com
Email Address: info@airboss.com

Our Annual Meeting is Thursday, May 13, 2021
at 9:00am at: AirBoss Rubber Solutions
101 Glasgow Street, Kitchener, Ontario

CORPORATE OFFICE

AirBoss of America Corp.

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

President and Chief Operating Officer:
Chris Bitsakakis

Chief Financial Officer:
Frank Ientile

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