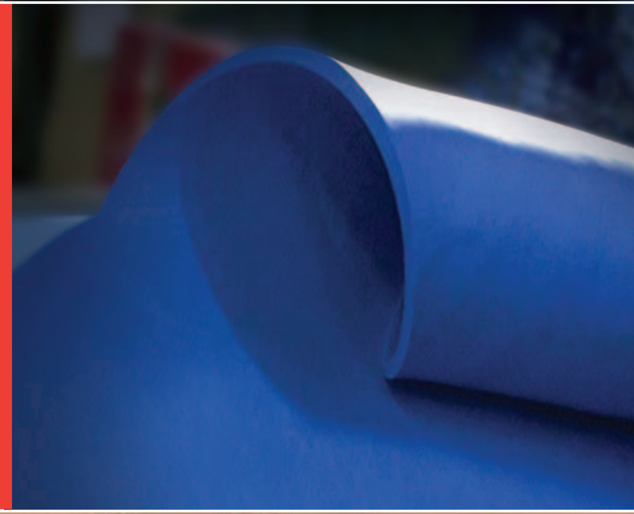
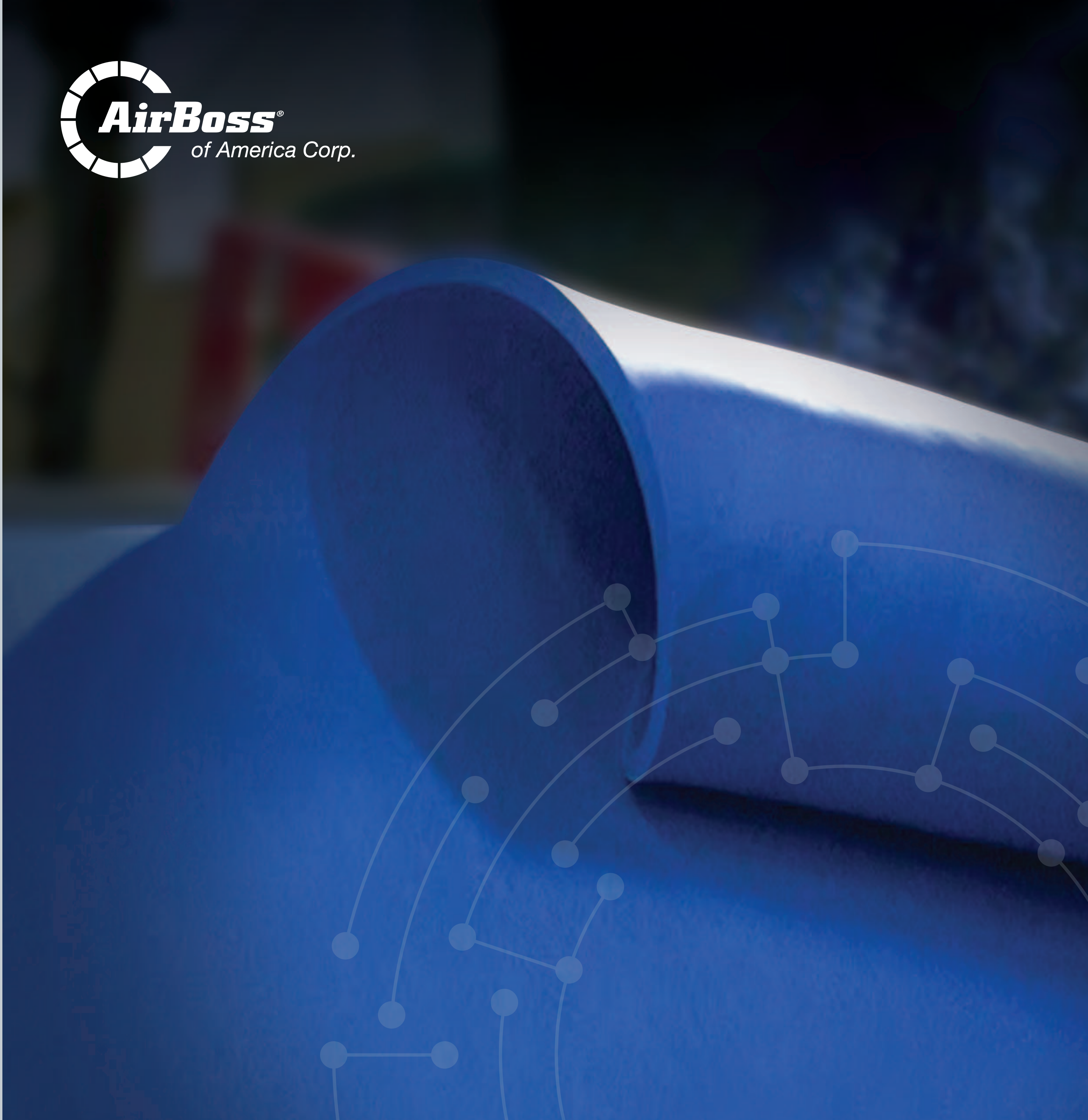
AirBoss of America Corp.

CAPITALIZING ON EXPANDED CAPABILITIES



2022 ANNUAL REPORT

AirBoss® of America Corp.



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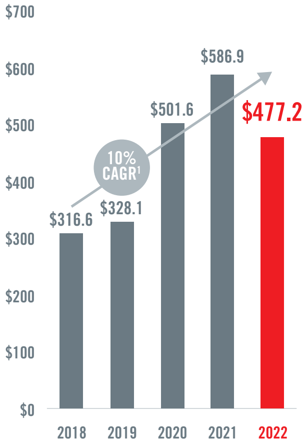
AT A GLANCE

2022 PRESENTED MANY CHALLENGES FOR AIRBOSS AS WE FOCUSED ON MANAGING CORPORATE AND OPERATIONAL RISKS WHILE EXECUTING OUR STRATEGIC PLAN TO DELIVER STRONG RESULTS FROM OUR EXPANDED OPERATING PLATFORM. AS OUR TEAM NAVIGATED RECURRING OBSTACLES RELATED TO SUPPLY CHAIN AND LOGISTICS, WE BEGAN TO SEE MODEST RELIEF FROM PREVIOUS RECORD RAW MATERIAL PRICE INCREASES. AIRBOSS MADE IMPORTANT PROGRESS IN SECURING NEW CONTRACT WINS AND SUCCESSFULLY RE-POSITIONING SPECIFIC BUSINESS UNITS FOR IMPROVED CONTRIBUTIONS TO OUR FINANCIAL PERFORMANCE.

HIGHLIGHTS

- Record annual revenue and gross margins from Rubber Solutions supported by improved operating efficiency, enhanced compounding capabilities, and expanded geographic reach
- Completed our integration of Ace Elastomer, surpassing initial performance expectations and solidifying our leading role in the North American color and specialty rubber compounding space
- Secured new contract awards within our Defense Group to manufacture and supply Husky 2G vehicles
- Leveraging our Made in America capabilities, secured an agreement within our Defense Group to support the delivery of COVID testing kits to the Defense Logistics Agency in the U.S.
- Concluded our first major competition for our Blast Gauge, which was developed to monitor impulse noise and concussive impacts, in the fourth quarter of 2022
- AirBoss Engineered Products successfully concluded contract negotiations with key customers and suppliers, the impacts of which were evident in Q4 segmented results

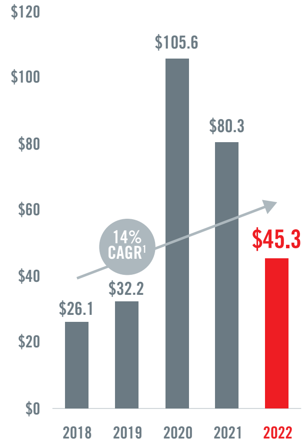
NET SALES[1] ($MM)



1. CAGRs are calculated for the period 2018 – 2022 inclusive.

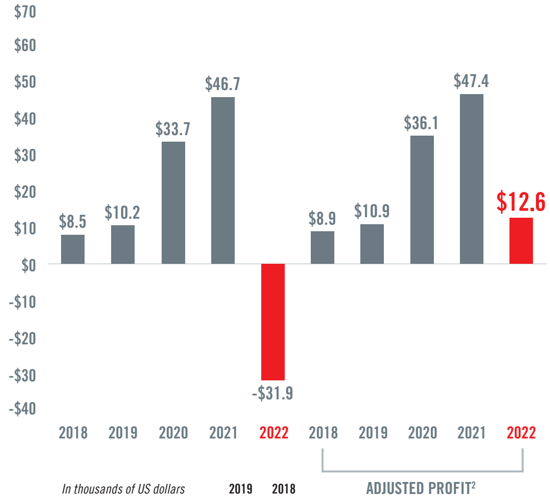
2. Adjusted EBITDA and Adjusted Profit are non-IFRS financial measures. Please see our financial disclosures below and on page 12 of this Annual Report for further information.

ADJUSTED EBITDA[1, 2] ($MM)



In thousands of US dollars	**2019**	**2018**
EBITDA:		
Profit	10,219	8,536
Finance costs	3,831	2,921
Depreciation, amortization, and impairment	13,716	10,966
Income tax expense	4,316	3,252
EBITDA	32,082	25,675
ADG transaction fees	1,401	390
Insurance provision	(1,287)	–
Adjusted EBITDA	32,196	26,065

PROFIT TO SHAREHOLDERS ($MM)



In thousands of US dollars	**2019**	**2018**
Adjusted profit:		
Profit	10,219	8,536
ADG transaction fees	1,401	390
Insurance provision	(672)	–
Adjusted profit	10,948	8,926

MESSAGE TO SHAREHOLDERS

ON THE HEELS OF A RECORD YEAR OF FINANCIAL PERFORMANCE AND CORPORATE GROWTH IN 2021, OUR FOCUS THROUGHOUT AIRBOSS IN 2022 WAS ON INTEGRATION AND EXECUTION FROM OUR NEWLY EXPANDED OPERATING PLATFORM. OUR STRATEGIC OBJECTIVES CENTERED ON USING OUR STRENGTHENED PRODUCTION CAPABILITIES AND INNOVATIVE PRODUCT PORTFOLIO TO SECURE NEW BUSINESS AND ADDING CUSTOMER RELATIONSHIPS TO DIVERSIFY OUR MARKET ACCESS. AT THE SAME TIME, WE CONTINUED TO MANAGE WITHIN THE CHALLENGING BUSINESS ENVIRONMENT FACED BY GLOBAL MARKETS – ONGOING DISRUPTIONS TO THE GLOBAL SUPPLY CHAIN AND PERSISTENT, HIGH LEVELS OF COST INFLATION CREATED A BACKDROP OF BUSINESS UNCERTAINTY.

As we felt the impact of these business conditions coupled with a post-pandemic decline in the nitrile glove market, it underscored the importance of our work to improve the factors over which we had a degree of control. Throughout our business, we accelerated efforts to capture production and cost efficiencies, while successfully completing steps to strengthen the positioning and profitability within specific business units. We are pleased to have made meaningful strategic advancements across many parts of our business in 2022.

CAPITALIZING ON OUR CAPABILITIES WITHIN RUBBER SOLUTIONS

Past investments made within AirBoss Rubber Solutions ("ARS") to improve automation and efficiency and expand the array of compounds and colors available to our customers led to record revenue and gross margin contributions in 2022. These performance improvements were supported by production capacity additions, new compounding expertise, and expanded access to key markets in the United States.

Within 2022, the ARS team focused on the seamless integration of our acquisition of Ace Elastomer. Since our acquisition in 2021, the value added by the Ace team has surpassed our expectations and has helped to solidify our leading role in the North American color and specialty rubber compounding space. Ace's rubber-compounding capabilities and geographic reach combined with the skills and talent added to our team have been an excellent addition to AirBoss.

From an operations and execution perspective, we are grateful to the entire ARS team for the strong improvements made in our business practices, and we believe we are well-equipped to carry these capabilities into the coming year and beyond. The longer-term priorities for our ARS team remain intact – to deliver growth through our positioning as a leading specialty supplier and supply chain partner in North America.

ADG POSITIONED TO PROVIDE VALUABLE SUPPORT TO THE FRONT LINES

Within our AirBoss Defense Group, or "ADG", while the cadence of contract awards meant that our annual sales performance did not match the record sales from this business segment in 2021, we regained important momentum in the latter part of 2022 with new contract awards. ADG's track record of on-time, on-budget execution using Made in America production capabilities supported its success in securing new business that demonstrates the diverse array of technologies provided to customers.

In December, we announced an agreement to support the delivery of COVID testing kits to the Defense Logistics Agency in the U.S. These kits are expected to be a strategic part of the U.S. Military's ability to effectively respond to future national emergencies. Earlier in the fourth quarter of 2022, we also announced new contracts to manufacture and supply Husky 2G vehicles. These counter-improvised explosive device, or C-IED vehicles, are equipped with industry-recognized route clearance and threat detection systems, which are a key part of ADG's suite of survivability solutions. We believe these contract wins are tangible evidence of the technology, manufacturing, and execution strengths we bring to our role as a key supplier to large-scale customers. These awards also show our commitment to cultivating industry partnerships to advance our technology offerings and market access.

During 2022, our operations team was focused on completing the integration of BlackBox Biometrics, or B3, into the ADG operating platform. B3 has brought valuable engineering and technical bench strength along with access to product innovations focused on noise and impact detection and monitoring, which are now core parts of ADG's suite of survivability solutions.

Looking forward, we believe ADG remains competitively positioned to win new survivability and healthcare sales opportunities. In 2022, our AirBoss 100 Half Mask Respirator, which is a more cost-effective and portable alternative to competing products, underwent field testing, and customer-specific modifications were made. Our Blast Gauge, which was developed to monitor over-pressure events, concluded its first major competition with the submission of final prototypes in the fourth quarter of 2022. These technologies along with others within ADG diversify the solutions we can provide and should competitively position this business to secure new business in the coming year.

RENEWED OPPORTUNITIES WITHIN ENGINEERED PRODUCTS

Having faced multiple challenges over the 2021 and 2022 timeframe, we are confident that our Engineered Products business has taken valuable strategic steps to improve its financial performance.

AEP experienced acute problems from rapidly escalating raw material prices, supply chain disruptions, and specific issues due to global shortages of the computer chips required by auto OEMs. Similar to our ARS business, AEP's operations team focused on upgrading capabilities and expanding sales opportunities. Its use of automation technology increased, efforts to reduce operating expenses accelerated, and innovative new products were introduced to diversify its customer reach into new non-automotive industries and enhance margins. The changes made by our AEP team in 2022 have meaningfully improved the positioning and resilience of this business.

As we exited 2021, we were clear in our commitment to working with AEPs partners and customers to resume a more stable financial footing for its continued operation. The strong long-term relationships built in this business provided essential support to our efforts to modify our agreements with key customers in a manner that allowed for improved recognition of rapidly rising costs related to personnel, logistics, and raw materials. We are excited to report the successful conclusion of this contract renewal process, which along with our cost improvement and market diversification initiatives are expected to support improved financial performance within AEP in the future.

LOOKING FORWARD

AirBoss continues to press ahead against a backdrop of general macroeconomic uncertainty, which we expect will have varying degrees of impact on customer demand levels in the coming year. Throughout our business segments, the final weeks of 2022 and the start of 2023 showed signs of slowing business activity, while expert projections of a potential economic slowdown remain divided. For our business units, productivity for ARS was strong in 2022, so a downturn in customer demand could potentially affect its results and offset our efforts to increase our throughput and gain market share. Having now re-gained stable footing for AEP, we continue to see opportunities to improve its financial performance, both through increased sales to our core customers and through further expansion of our opportunity set into non-automotive applications. For ADG, we expect that the main market drivers for its technology solutions are intact, and we are optimistic that our clients remain focused on advancing their bid processes and awarding new business following multiple delays as governments grappled with their response to the Russian invasion of Ukraine. On the M&A front, we continue to monitor potential acquisitions with a focus on building our product portfolio, advancing our technical capabilities, and expanding our geographic reach.

In closing, we have increased confidence that we have re-gained the high ground for each of our businesses from a product, production, and execution perspective. From this improved vantage point, we will focus on leveraging our core expertise to win new business and expand our market share. We want to thank our shareholders for their support as we continue our work to strengthen and grow our business. Our thanks also go to our Board of Directors for their commitment to the strategic direction of AirBoss. And finally, we extend our thanks to our employees for their dedication to building our capabilities, resilience, and ability to capture new opportunities, all while cultivating a safe, diverse, and inclusive working environment. These factors are at the core of AirBoss' ability to succeed in the future.

P.G. Schoch
Chairman and CEO

Chris Bitsakakis
President and COO

AirBoss Defense Group (“ADG”) is a diversified developer, manufacturer, and supplier of survivability solutions for military, first response and healthcare applications.

Our products range from personal protective equipment (“PPE”) for military and healthcare settings; to masks, boots, gloves, shelters and isolation products for industrial and military-grade protection against chemical, biological, radioactivity and nuclear (“CBRN”) threats; and blast monitoring and route clearance solutions for military personnel on active duty.

BLACKBOX BIOMETRICS

ADG has taken important steps to fortify its competitive positioning in the survivability solutions market. With its 2021 acquisition of Black Box Biometrics®, Inc. (“B3”), ADG gained skills and products including the Blast Gauge® System of lightweight, wearable blast overpressure sensors, which has been outfitted on Special Forces, Army and SWAT units across the U.S. We believe significant potential exists for deployment of this innovative technology, both domestically and around the world.

As global militaries advance their practices and the assets they rely on during active combat and training exercises, it is essential to ensure the safe ongoing use of the tools required to get the job done. If not monitored and managed, blast overpressure induced by many modern weapon systems can negatively impact service member health and overall force readiness. The Blast Gauge® System is operationally proven to help modern militaries safely and effectively employ these critical combat capabilities.

Through B3, ADG also gained expertise in the next generation of detection and monitoring solutions, including those for impulse noise (e.g. medium caliber firearms) and concussive impact (e.g. full body contact sports like football, hockey, etc.).

THE HUSKY 2G VEHICLE SYSTEMS IN THE FIELD

ADG’s Husky 2G is a blast-survivable, mission-configurable vehicle platform that employs a range of radar and sensor systems for countermine and non-conventional explosive detection. Approximately 1,500 Husky systems are deployed to military customers globally and have survived more than 8,000 blasts without a single soldier fatality.

In November, ADG announced the latest order for our Husky 2G vehicles, along with comprehensive training and sustainment supplies. Through these contracts, ADG will provide critical, best-in-class route clearance and threat detection and interrogation capabilities that enable a rapid response to the growing international demand for survivability solutions delivered by ADG.

The two-operator Husky 2G clearance vehicle was developed to meet the operational requirement for longer, more complex, mounted clearance missions and the employment of more sophisticated vehicle payloads. Built with a unique V-shaped hull and modular design, the Husky 2G C-IED protects operators from blast impacts, small arms fire, and challenging terrain while supporting sensor systems for threat detection, identification, and mitigation.

HUSKY 2G

THE HUSKY 2G CAN BE EQUIPPED WITH A FULL COMPLEMENT OF DETECTION SYSTEMS AND PERIPHERY SUBSYSTEMS INCLUDING:

GROUND PENETRATING RADAR ("GPR")

M20 INTERROGATION ARMS

ROLLOVER DETECTION SYSTEMS

360 CAMERA SYSTEM

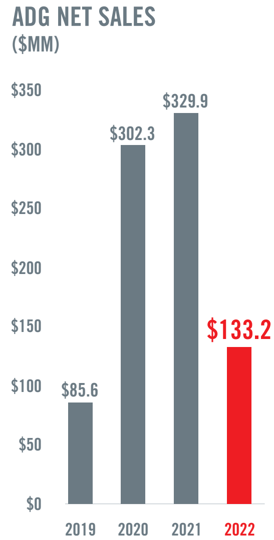
RPG-DEFEAT NETTING

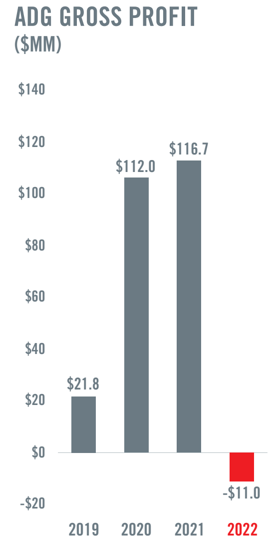
ADG'S 2022 LAUNCH OF THE AIRBOSS 100

In May of 2022, ADG introduced its AirBoss 100™ Half Mask Respirator ("AirBoss 100"), with applications in industries including healthcare and medical providers, law enforcement, and first responders. Approved by the National Institute of Occupational Safety and Health (NIOSH), the AirBoss 100 is lightweight and comfortable, reducing the burden typically associated with long-term respirator wear. Some of the key features of the AirBoss 100 include superior filtration and protection, low breathing resistance, comfortable extended wear, and low-cost cleaning and maintenance.

To augment our current business platform, ADG's strategic focus is on opportunities to broaden our suite of survivability solutions and complement our existing product offering, targeting medical professionals, first responders, special tactics teams, and militaries around the globe.

> *"AirBoss Defense Group is growing its worldwide leadership in survivability solutions, ranging from IED detection to high-risk environment personal protective equipment. The Husky 2G is a cornerstone product in our portfolio of survivability solutions and is the most survivable vehicle available on the battlefield, providing unparalleled route clearance capabilities to U.S allies around the world."*
>
> ***Patrick Callahan,*** *CEO of AirBoss Defense Group.*





AirBoss Rubber Solutions (“ARS”) is North America’s second-largest custom compounder with more than 500 million pounds of annual capacity.

ARS produces over 2,000 proprietary compounds for customers in the industrial, defense, and resource sectors, for use in tires, rollers, conveyor belting, and numerous other commercial applications. ARS’ strategic focus is on expanding its compounding capabilities with an emphasis on high-value compounds and specialty, high-performance elastomers; broadening its access to key end-use markets in North America; and augmenting its market position through an emphasis on technical expertise and innovation.

500 million pounds annual capacity

2,000 proprietary compounds

SOLIDIFYING OUR LEADERSHIP
IN RUBBER COMPOUNDING

Our focus on operating efficiency combined with continued efforts to strengthen our technical expertise and manufacturing capabilities contributed to ARS' delivery of record financial performance in 2022. A combination of organic investments in our technical skills and production assets, our August 2021 acquisition of Ace Elastomer, and a focus on leveraging the capabilities of our newly expanded platform each played an important role in ARS' record financial performance during the year.

The overall expansion of ARS has created important new opportunities to capture operational efficiencies and reduce costs across our larger platform, with improved raw materials purchasing power and enhanced manufacturing and material handling capabilities. As well, investments in new equipment have supported gains in operating efficiency through higher levels of production automation, which have enabled larger batch sizes and shorter production cycles. The addition of white/colour and tilt mixing lines in our Kitchener facility has strengthened AirBoss' ability to provide U.S.-based customers with domestically produced color and specialty compounded rubber products.

Alongside this growth, recent investments in our R&D technical Center and Laboratory in our Kitchener, ON facility also ensured that as we expanded production into new colours, products, and formulations, we successfully maintained high levels of quality and consistency in our finished products.

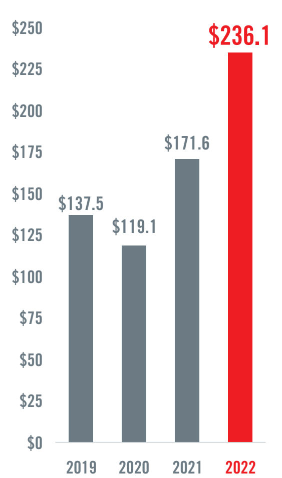
AceElastomer
a division of AirBoss Rubber Solutions

Ace has played an important part in the strategic efforts within ARS. Through the Ace acquisition, we gained valuable access to its leading position in the design, formulation development and custom mixing of proprietary elastomer compounds across the natural and synthetic polymer range, including a variety of custom mix compounds. In addition to offering custom molding and extrusion applications, Ace is a market leader in rubber rollers and serves the belting and printing segments. Geographically, Ace expanded ARS' U.S. presence in the Southeast while adding new access in the Midwest, improving proximity to key markets and customers. Given these factors, Ace is closely aligned with ARS's long-term strategy of diversifying our core compounding capabilities and expanding our geographic presence.

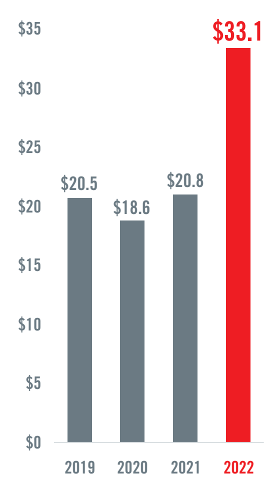
ENHANCING OUR LONG-TERM POSITIONING IN THE RUBBER BUSINESS

From its expanded platform, AirBoss remains focused on maintaining its leadership position in high-volume black rubber and further expanding its capabilities in higher-margin white/colour compounds and specialty, high-performance elastomers. From an organic perspective, our efforts will center on ongoing research and development, industry partnerships for applied development of customer solutions, and new investment to improve our manufacturing capabilities. We expect that over the long-term our organic growth initiatives will continue to enable us to grow volumes at rates exceeding industry levels, and our prioritization of operational efficiency will support the price competitiveness of our products. We also continue to believe in the value to be gained through acquisitions - accessing our available liquidity to pursue accretive acquisitions to expand our regional footprint, add expertise, and build our industry relationships and product portfolio.
Our longer-term strategy is to continue our pursuit of further growth of ARS using these same two primary channels.

ARS NET SALES
($MM)



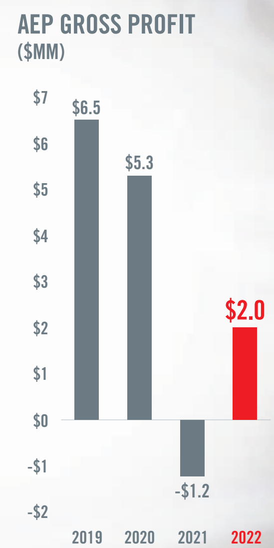
ARS GROSS PROFIT
($MM)



AirBoss® Engineered Products

As one of the industry’s leading custom molders, AirBoss Engineered Products (“AEP”) manufactures customized rubber-based products

used in noise, vibration, and harshness (NVH) reduction applications across the automotive, electric vehicle, heavy truck & off-highway, and defense industries, in addition to industrial and commercial products for non-automotive manufacturers. AEP’s research & development, design, and manufacturing resources are headquartered at our US-based location in Auburn Hills, Michigan.



PERSEVERANCE AGAINST A CHALLENGING BUSINESS BACKDROP

Over the past two years, global businesses have contended with operational impacts from several sources including the COVID-19 pandemic, rising inflation, global supply chain disruptions, and the effects of higher borrowing rates. For AEP, these market factors placed upward pressure on commodity prices, reduced supply of key inputs, escalated labour cost and availability issues, and led to ongoing logistics challenges. These factors were also having a pronounced effect on AEP's key customers and supply chain partners, which added to the problems faced by this business segment.

Following the 2020/2021 timeframe during which AEP was most significantly impacted by these business challenges, efforts to pursue operating efficiencies, expand and improve our product portfolio, and renew long-standing customer agreements led to positive momentum in the financial performance of AEP through the end of 2022.

The work we completed with AEP's long-standing partners in the automotive industry was a prime example of the issues we continued to manage and the strategies being employed to manage them. AEP continued its work to improve product availability, drive higher levels of production efficiency, and use our ability to innovate to address changing customer requirements. Efforts focused on new engineering solutions to create production efficiencies and offset input cost increases, and leveraging the expertise of our ARS material science team to introduce compounds that improve performance while reducing risks related to raw materials availability and pricing. AEP's U.S. manufacturing base also provided essential support to efforts to localize the production of key parts from overseas, which has led to new business wins. Our investments in new injection presses and two robotic work cells increased our throughput and reduced our labour costs. These internal initiatives and collaboration with supply chain partners have meaningfully strengthened the long-term capabilities and competitiveness of AEP.

ADVANCING OUR PARTNERSHIPS AND PRODUCTS FOR GROWTH

The strategic goals for AEP include expanding our market access and product portfolio to while establishing and maintaining supplier and customer agreements that create long-term opportunities and mitigate risks for those involved.

AEP continues to be a leading supplier to the automotive industry with a focus on the passenger automobile and light truck sectors – this is a core part of our business. As part our overall plan to deliver stable, long-term growth, AirBoss continues to investigate ways to diversify its business toward solutions for companies participating in new end markets, including military, heavy truck, bus, electric vehicle, construction, agriculture and recreational vehicles. Led by management team members within AEP that are specifically tasked with expanding our non-automotive presence, commercial sales of our first non-automotive product commenced in 2020, and work continued on product applications in the semi-truck as well as other markets market in 2022.

Leveraging AirBoss' market presence in serving military customers, AEP has also launched new parts for military vehicles. Our first non-vehicle products, including AEP's RamGuard which is a reinforced guard for industrial racking, have also been introduced. We remain committed to increasing AEP's sales success in non-automotive applications over the longer term.

In 2022, essential progress was made toward our goal to establish supplier and customer agreements that create long-term opportunities while mitigating risk. AEP successfully concluded a series of arrangements with key suppliers and customers that serve to strengthen our financial situation, and management expects that these negotiations should support the delivery of improved financial results going forward.

For AEP, our long-term strategy remains focused on capturing operational improvements and using our core technical and manufacturing capabilities to diversify our product lines and strengthen our presence in sectors adjacent to the automotive space, all in support of strengthening our leading market position.

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 13, 2023 and should be read in conjunction with the Consolidated Financial Statements and Notes for the year ended December 31, 2022 prepared in accordance with *International Financial Reporting Standards ("IFRS")* as issued by the International Accounting Standards Board. 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 information" or "forward-looking statements" within the meaning of applicable securities laws, and can generally be identified by words such as "will", "may", "could" "expects", "believes", "anticipates", "forecasts", "plans", "intends" or similar expressions. These statements are not historical facts but instead represent management's expectations, estimates and projections regarding future events and performance.

Statements containing forward-looking information are necessarily based upon a number of opinions, estimates and assumptions that, while considered reasonable by management at the time the statements are made, are inherently subject to significant business, economic and competitive risks, uncertainties and contingencies. AirBoss cautions that such forward-looking information involves known and unknown contingencies, uncertainties and other risks that may cause AirBoss' actual financial results, performance or achievements to be materially different from its estimated future results, performance or achievements expressed or implied by the forward-looking information. Numerous factors could cause actual results to differ materially from those in the forward-looking information, including without limitation: impact of general economic conditions, notably including their impact on demand for rubber solutions and products; dependence on key customers; global defense budgets, notably in the Company's target markets, and success of the Company in obtaining new or extended defense contracts; cyclical trends in the tire and automotive, construction, mining and retail industries; sufficient availability of raw materials at economical costs; weather conditions affecting raw materials, production and sales; AirBoss' ability to maintain existing customers or develop new customers in light of increased competition; AirBoss' ability to successfully integrate acquisitions of other businesses and/or companies or to realize on the anticipated benefits thereof; changes in accounting policies and methods, including uncertainties associated with critical accounting assumptions and estimates; changes in the value of the Canadian dollar relative to the US dollar; changes in tax laws; current and future litigation; ability to obtain financing on acceptable terms; environmental damage and non-compliance with environmental laws and regulations; impact of global health situations; potential product liability and warranty claims and equipment malfunction. The continued COVID-19 pandemic 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 the continued COVID-19 pandemic 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 that can provide financing up to $250,000. 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 Annual 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)

- Record sales and profitability for the Rubber Solutions segment;
- AirBoss Defense Group supported initial delivery of COVID-19 test kits to the US Government;
- Adjusted EBITDA[1] of $45.3 million (excluding the $57.0 million write-down of inventory) on Adjusted Profit[1] of $12.6 million and a loss of $31.9 million;
- Finished 2022 with a Net Debt to Adjusted EBITDA ratio[1] of 2.43x; and
- Declared a quarterly dividend of C$0.10 per common share.

Selected Financial Information

In thousands of US dollars, except share data

For years ended December 31	**2022**	2021	2020
Financial results:			
Net sales	**477,155**	586,858	501,572
Profit (loss)	**(31,892)**	46,703	56,262
Profit (loss) attributable to owners of the Company	**(31,892)**	46,703	33,703
Adjusted Profit attributable to owners of the Company[1]	**12,558**	47,374	36,087
Earnings (loss) per share (US$)			
– Basic	**(1.18)**	1.73	1.40
– Diluted	**(1.18)**	1.65	1.35
Adjusted earnings per share[1] (US$)			
– Basic	**0.46**	1.76	1.50
– Diluted	**0.45**	1.67	1.45
EBITDA[1]	**(12,769)**	79,591	103,211
Adjusted EBITDA[1]	**45,336**	80,341	105,595
Net cash from operating activities	**(30,775)**	2,023	104,399
Free cash flow[1]	**(40,964)**	(15,961)	89,965
Dividends declared per share (CAD$)	**0.40**	0.37	0.28
Capital additions	**10,212**	22,585	15,606
Financial position:			
Total assets	**440,766**	443,264	367,369
Debt[2]	**143,642**	80,563	90,734
Net Debt[1]	**110,083**	56,033	(9,718)
Shareholders' equity	**196,997**	235,148	194,588
Outstanding shares*	**27,092,041**	26,993,181	26,908,802
**27,092,041 at March 9, 2023*			

[1]See Non-IFRS Financial Measures
[2]Debt includes $15,007 of lease liabilities (2021: $17,399; 2020: $13,482)

NON-IFRS FINANCIAL MEASURES

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

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

In thousands of US dollars	**2022**	2021	2020
EBITDA:			
Profit (loss)	**(31,892)**	46,703	56,262
Finance costs	**5,738**	4,178	3,368
Depreciation, amortization, and impairment	**21,905**	20,881	21,014
Income tax expense (recovery)	**(8,520)**	7,829	22,567
EBITDA	**(12,769)**	79,591	103,211
Acquisition fees	**–**	445	2,384
Prospectus fees	**–**	305	–
Professional fees related to AEP negotiations	**1,104**	–	–
Write-down of inventory	**57,001**	–	–
Adjusted EBITDA	**45,336**	80,341	105,595

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

In thousands of US dollars	**2022**	2021	2020
Adjusted profit attributable to owners of the Company:			
Profit (loss) attributable to owners of the Company	**(31,892)**	46,703	33,703
Acquisition fees	**–**	445	2,384
Prospectus fees (after tax)	**–**	226	–
Professional fees related to AEP negotiations (after tax)	**844**	–	–
Write-down of inventory (after tax)	**43,606**	–	–
Adjusted profit attributable to owners of the Company	**12,558**	47,374	36,087
Basic weighted average number of shares outstanding	**27,071**	26,970	24,032
Diluted weighted average number of shares outstanding	**28,109**	28,298	24,901
Adjusted earnings per share (in US dollars):			
Basic	**0.46**	1.76	1.50
Diluted	**0.45**	1.67	1.45

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

In thousands of US dollars	**2022**	2021	2020
Net debt:			
Loans and borrowings - current	**2,286**	2,356	27,083
Loans and borrowings - non-current	**141,356**	78,207	63,651
Leases included in loans and borrowings	**(15,007)**	(17,399)	(13,482)
Cash and cash equivalent	**(18,552)**	(7,131)	(86,970)
Net debt	**110,083**	56,033	(9,718)

The Company has a Net Debt to trailing twelve-month Adjusted EBITDA ratio of 2.43x (2021: 0.70x, 2020: (0.09)x)

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

In thousands of US dollars	**2022**	2021	2020
Free cash flow:			
Net cash provided by (used in) operating activities	**(30,775)**	2,023	104,399
Acquisition of property, plant and equipment	**(8,800)**	(16,912)	(14,215)
Acquisition of intangible assets	**(1,392)**	(1,081)	(719)
Proceeds from government grant	**–**	–	500
Proceeds from disposition	**3**	9	–
Free cash flow	**(40,964)**	(15,961)	89,965
Basic weighted average number of shares outstanding	**27,071**	26,970	24,032
Diluted weighted average number of shares outstanding	**27,071**	26,970	24,901
Free cash flow per share (in US dollars):			
Basic	**(1.51)**	(0.59)	3.74
Diluted	**(1.51)**	(0.59)	3.61

OVERVIEW

2022 was a challenging year for AirBoss as the company focused on managing risks at the corporate level and in each segment, while continuing to execute our strategic plan to deliver strong operational and financial results. The Company navigated significant and extensive obstacles including supply chain and logistics challenges, while beginning to see some modest improvements from previous record raw material price increases. AirBoss also worked diligently to address and mitigate the impact of uncertain economic conditions on its business and that of its customers during Q4 2022, including risk mitigation plans within its supply chain and a focus on growth initiatives and key investments, while maintaining its focus on a safe work environment for its employees.

The Rubber Solutions and AirBoss Defense Group ("ADG") segments experienced residual softness in Q4 2022, while the Engineered Products segment was able to work with its key suppliers and customers to strengthen its financial situation and management expects this segment to deliver improved financial results in 2023. The continued recovery in volumes in 2023 for each segment will remain subject to the ongoing management of the stable and sustained operations of businesses globally, which remains complex and volatile considering evolving and ongoing challenges such as continued inflation pressure and the ongoing war in Ukraine, and successful conversion of opportunities.

For the Rubber Solutions segment, 2022 was a record year from a sales and EBITDA perspective, with strong momentum during the first three quarters and some pronounced softness experienced at the end of Q4 2022 as sales were impacted by customers focused on reducing inventory levels. Despite these headwinds, the segment remains focused on executing on its strategy to deliver strong results with specialized products, expanded production of a broader array of compounds (white and color) and enhanced flexibility in attracting and fulfilling new business through identified synergies and margin expansion. As a segment, Rubber Solutions continued to invest in research and development to support enhanced collaboration with customers and remained focused on integrating Ace Elastomer's ("Ace") specialized products into its expanding range of solutions.

ADG remained focused on its survivability solutions platform while targeting traditional defense contracts in line with its long term strategy of expanding its product portfolio. In addition, ADG continued to work with its key customers to leverage opportunities aligned with its growth initiatives, subject to timing as delays in the conversion of these opportunities continued through the fourth quarter of 2022. In particular, execution of the previously announced awards for Husky 2G vehicles has been delayed due to ongoing global challenges, and management now anticipates execution of those orders to commence by the end of the second quarter of 2023. Management continues to believe that the future sourcing of Personal Protective Equipment ("PPE") for first responders and healthcare professionals will remain a necessity and priority for front line workers, evidenced by the strong pipeline of PPE-related opportunities that ADG is currently pursuing.

Within the Engineered Products segment, 2022 finished strong despite being a challenging year given the continued impact of raw material price increases, supply chain challenges and production volatility by the original equipment manufacturers (OEMs). Engineered Products was able to work with its key suppliers and customers to strengthen its financial situation and management expects this segment to deliver improved financial results in 2023. Management also continued to focus on operational improvements including managing variable costs and sustaining a stable hourly workforce, while dealing with volume volatility in the automotive sector and specifically on AirBoss' products for SUV, light truck and mini-van platforms. The segment also continued its focus and commitment to drive efficiencies and best-in-class automation, as well as diversification of its product lines into sectors adjacent to the automotive space.

In December 2022, a statement of claim was filed in the Ontario Superior Court of Justice against AirBoss and several named officers. The applicants under the proceeding seek an order for leave to proceed under the Securities Act (Ontario), certifying the proceeding as a class proceeding and appointing them as representative plaintiffs. The applicants seek, among other relief, a declaration that the Company made misrepresentations contrary to the Securities Act (Ontario) during a period extending from November 9,2021 to September 6, 2022, as well as unspecified damages. No provision for contingent losses has been recognized in the Company's annual consolidated financial statements.

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

1. Growing the core Rubber Solutions segment by positioning it as a specialty supplier of choice in the consolidating North American market, with a focus on building defensible leadership positions in selected compounds;
2. Capitalizing on AirBoss Defense Group'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 Engineered Products 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 with 16 years of dividend payments growing at an average annual rate of 15%, 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 year ended December 31, 2022 compared to 2021

NET SALES

Consolidated net sales for the year ended December 31, 2022 decreased by 18.7% to $477,155, compared with 2021 primarily due to ADG's delivery of nitrile gloves to the U.S. Department for Health and Human Services ("HHS") in the prior year, partially offset by increased sales at Rubber Solutions across the majority of customer sectors and improved performance at the Engineered Products segment.

In thousands of US dollars		AirBoss Defense Group	Rubber Solutions	Engineered Products	Inter-segment net sales	Total
Net Sales	**2022**	**133,160**	**236,149**	**132,512**	**(24,666)**	**477,155**
	2021	329,916	171,553	116,621	(31,232)	586,858
Increase (decrease) $		(196,756)	64,596	15,891	6,566	(109,703)
Increase (decrease) %		(59.6)	37.7	13.6	(21.0)	(18.7)

AirBoss Defense Group

Net sales in the AirBoss Defense Group segment decreased by 59.6% to $133,160 in 2022, from $329,916 in 2021. The decrease was primarily due to ADG's delivery of filters and nitrile gloves to HHS in 2021.

Rubber Solutions

Net sales in the Rubber Solutions segment increased by 37.7%, to $236,149 in 2022, from $171,553 in 2021. This was a record year for Rubber Solutions. Volume was up 3.3% with increases across the majority of sectors despite residual softness due to economic headwinds.

Tolling volumes for the year ended December 31, 2022 decreased by 11.9%, compared with 2021. Non-tolling volumes for the year ended December 31, 2022 increased by 6.6% compared with 2021. The overall increase in volume was across several sectors with strong increases in industrial, conveyor belt applications and specialty applications.

Engineered Products

Net sales in the Engineered Products segment increased by 13.6%, to $132,512 in 2022, from $116,621 in 2021. The increase was due to increased volume and improved arrangements with key suppliers and customers in the SUV, light truck and mini-van platforms compared to the same period in the prior year.

GROSS PROFIT

For the year ended December 31, 2022, consolidated gross profit was down by $112,167 to $24,131. Gross profit as a percentage of net sales decreased to 5.1% from 23.2% in 2021. The decrease was driven by a $57.0 million non-cash write-down at ADG related to nitrile glove inventory and the delivery of nitrile gloves to HHS in 2021, partially offset by significant improvements at the Rubber Solutions and Engineered Products segments.

In thousands of US dollars		AirBoss Defense Group	Rubber Solutions	Engineered Products	Total
Gross Profit	**2022**	**(10,970)**	**33,084**	**2,017**	**24,131**
	2021	116,658	20,836	(1,196)	136,298
Increase (decrease) $		(127,628)	12,248	3,213	(112,167)
% net of sales	**2022**	**(8.2)**	**14.0**	**1.5**	**5.1**
	2021	35.4	12.1	(1.0)	23.2

AirBoss Defense Group

Gross profit at AirBoss Defense Group for the year ended December 31, 2022 was $(10,970), down $127,628 compared with $116,658 in 2021. The decreases were primarily the result of the $57.0 million inventory write-down and deliveries to HHS in 2021, partially offset by favorable volume in ADG's industrial products line.

Rubber Solutions

For the year ended December 31, 2022, gross profit for Rubber Solutions was $33,084 (14.0% of net sales), up $12,248 compared to $20,836 (12.1% of net sales) in 2021. The increase was primarily as a result of increased non-tolling volumes compared to the same period in 2021 and managing controllable overhead costs, partially offset by labor and logistics costs and the elimination of government-directed subsidies in the first half of 2021.

Engineered Products

Gross profit for the year ended December 31, 2022 in the Engineered Products segment was $2,017, up $3,213 compared with $(1,196) in 2021. The increase was primarily a result of increased volume, improved arrangements with Engineered Products' key suppliers and customers and a continued focus on controllable operational cost containment and managing overhead costs, partially offset by a government-directed wage subsidy in the first half of 2021 and challenges associated with global electronic chip shortages in the automotive sector combined with some residual raw material cost escalations, freight and logistics costs earlier in the year.

OPERATING EXPENSES

Consolidated operating expenses for the year ended December 31, 2022 decreased by $18,783 to $58,805 compared with 2021. The decrease was primarily due to lower stock-based compensation expenses and lower selling costs, partially offset by higher professional fees related in part to negotiations at AEP, the elimination of government-directed wage subsidies, inclusion of Blackbox Biometrics, Inc. ("B3") and Ace for a full year, higher administrative costs, and a larger foreign exchange loss. As a percentage of net sales, operating expenses for the year ended December 31, 2022 decreased to 12.3% from 13.2% in 2021.

In thousands of US dollars		AirBoss Defense Group	Rubber Solutions	Engineered Products	Corporate	Total
Operating Expenses	**2022**	**29,051**	**13,389**	**13,289**	**3,076**	**58,805**
	2021	41,660	9,711	10,033	16,184	77,588
Increase (decrease) $		(12,609)	3,678	3,256	(13,108)	(18,783)
% net of sales	**2022**	**21.8**	**5.7**	**10.0**	**N/A**	**12.3**
	2021	12.6	5.7	8.6	N/A	13.2

AirBoss Defense Group

AirBoss Defense Group's operating expenses for the year ended December 31, 2022 decreased by 30.3% to $29,051. The decrease was primarily due to lower selling costs and administrative costs, partially offset by the inclusion of B3 for a full year and amortization of B3's intangible assets, the elimination of government-directed wage subsidies, and higher R&D costs.

Rubber Solutions

Rubber Solutions' operating expenses for the year ended December 31, 2022 increased by 37.9%, to $13,389, compared with $9,711 in 2021. The increase was primarily due to the inclusion of Ace for a full year and amortization of Ace's intangible assets, higher administration costs and the elimination of government-directed wage subsidies, partially offset by a larger foreign exchange gain.

Engineered Products

Engineered Products' operating expenses for the year ended December 31, 2022 increased by 32.5% to $13,289. The increase was due to higher professional fees, the elimination of government-directed wage subsidies, and higher administration costs.

Unallocated Corporate Costs

Unallocated corporate costs for the year ended December 31, 2022 decreased by $13,108 from 2021. The decrease was principally due to lower stock-based compensation expenses and lower administration costs, partially offset by higher professional fees, the elimination of government-directed wage subsidies, and a larger foreign exchange loss.

FINANCE COST

Finance costs in 2022 were $5,738 (2021: $4,178). The increase was primarily due to greater borrowings and increased borrowing costs along with higher banking fees, partially offset by gains on the interest rate swap.

INCOME TAX EXPENSE

For the year ended December 31, 2022, the Company recorded an income tax recovery of $8,520 (2021: expense of $7,829) or an effective income tax rate of 21.1% (14.4% in 2021). The effective tax rate increased due to the recognition of temporary differences recognized in 2021.

	Tax expense		Rate	
In thousands of US dollars	**2022**	2021	**2022**	2021
Expected statutory rate	**(10,709)**	14,452	**26.50%**	26.50%
Foreign rate differential	**2,137**	(1,377)	**(5.29%)**	(2.53%)
Effect of permanent differences	**225**	(1,124)	**(0.56%)**	(2.06%)
Change in tax rates and new legislation	**259**	(199)	**(0.64%)**	(0.36%)
Filing differences	**(309)**	(543)	**0.76%**	(1.00%)
Deductible temporary differences not recognized	**(14)**	(3,464)	**0.03%**	(6.35%)
Other	**(109)**	84	**0.27%**	0.15%
Effective tax rate	**(8,520)**	7,829	**21.07%**	14.35%

PROFIT (LOSS) AND EARNINGS (LOSS) PER SHARE

Net loss in 2022 amounted to $31,892, compared with a profit of $46,703 in 2021. The basic and fully diluted net loss per share were $1.18 (2021: earnings of $1.73 and $1.65, respectively). The decreases were primarily attributable to ADG's $57.0 million inventory write-down, and deliveries of filters and nitrile gloves to HHS in 2021.

QUARTERLY INFORMATION

In thousands of US dollars			Earnings (loss) per share	
Quarter Ended	Net Sales	Profit (loss)	Basic	Diluted
2022				
December 31, 2022	**117,453**	**11,997**	**0.44**	**0.43**
September 30, 2022	104,682	(55,957)	(2.07)	(2.07)
June 30, 2022	110,547	2,492	0.09	0.09
March 31, 2022	144,473	9,576	0.35	0.34
2021				
December 31, 2021	**249,053**	**15,162**	**0.56**	**0.53**
September 30, 2021	112,027	6,902	0.26	0.24
June 30, 2021	118,449	18,320	0.68	0.65
March 31, 2021	107,329	6,319	0.23	0.22

Fourth Quarter 2022 Results

NET SALES

Consolidated net sales for Q4 2022 decreased by 52.8% to $117,453, from $249,053 in Q4 2021, with a decrease from ADG partially offset by increases from Rubber Solutions and Engineered Products for the reasons outlined below.

AirBoss Defense Group

AirBoss Defense Group's net sales for Q4 2022 decreased by 88.7% to $19,806 compared with Q4 2021. The decrease was primarily the result of delivery under the nitrile patient examination gloves contract from HHS, as part of the U.S. government's response to the COVID-19 pandemic, in the prior year.

Rubber Solutions

Net sales for Q4 2022 in the Rubber Solutions segment increased by 9.8% to $57,778, from $52,616 in Q4 2021. The increase in net sales for Q4 2022 was primarily in the conveyor belt, OTR/retread, industrial and specialty products sectors. Tolling volume was down 46.0%, while non-tolling volume was down 4.5% driven by decreases in most 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.

Engineered Products

Engineered Products net sales for Q4 2022 increased by 64.8% to $46,655 compared with Q4 2021. The increase a result of improved volumes across several automotive product lines in particular the muffler hangers, bushings, and spring insulator product lines in addition to improved arrangements with Engineered Products' key suppliers and customers recognized in the quarter.

GROSS PROFIT

Consolidated gross profit for Q4 2022 decreased to $24,767 (21.1% of net sales) from $51,444 (20.7% of net sales) in Q4 2021, with decreases in the AirBoss Defense Group segment partially offset by increases in the Rubber Solutions and Engineered Products segments.

AirBoss Defense Group

AirBoss Defense Group's gross profit for Q4 2022 decreased by $44,920 to $2,904 compared with Q4 2021.The decrease was primarily due to delivery of nitrile patient examination gloves to HHS in the prior year.

Rubber Solutions

Gross profit at Rubber Solutions for Q4 2022 was $6,915 (12.0% of net sales), compared with $5,869 (11.2% of net sales) in Q4 2021. The increase in gross profit was principally due to product mix partially offset by a modest reduction in volume.

Engineered Products

Gross profit at Engineered Products for Q4 2022 increased by $17,197 to $14,948 compared with a loss of $2,249 in Q4 2021. The increase was primarily a result of price, product mix, and volume in the automotive sector in addition to operational cost containment, and managing overhead costs.

OPERATING EXPENSES

Consolidated operating expenses for Q4 2022 decreased by $14,611, compared with Q4 2021. The decrease was primarily due to lower selling costs, lower stock-based compensation costs, lower administration costs, and a higher foreign exchange gain, partially offset by higher professional fees related in part to key challenges addressed in the Engineered Products segment. As a percentage of net sales, operating expenses in Q4 2022 were slightly higher than Q4 2021.

INCOME TAX EXPENSE

Tax expense for Q4 2022 decreased by $10,115 compared to Q4 2021. Income tax expense decreased due to lower pre-tax income and recognizing tax assets during the quarter.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its 2023 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 $250,000 (2021: $250,000). As at December 31, 2022, $130,813 was drawn against the credit facility.

For the period ended December 31, 2022, $30,775 of cash was consumed by operations (2021: $2,023 cash generated), $10,189 was used for investing activities (2021: $64,559) and $52,202 was provided by financing activities (2021: $17,526 cash consumed). Cash and cash equivalents increased by $11,421 from $7,131 to $18,552, adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

For the year ended December 31, 2022, cash used by operating activities increased by $32,798 compared to 2021. The increase was due to a $78,595 decrease in profit and higher interest payments of $2,014, partially offset by higher non-cash expenses of $33,997, a $7,056 decrease in cash consumed by net working capital and decreased tax payments of $6,758.

Cash consumed by working capital for the year ended December 31, 2022 was $58,490 (2021: $65,546) as a result of the following factors:

- Cash used for trade and other receivables was $12,252 due to increased sales at the Engineered Products and Rubber Solutions segments;
- Cash used for inventories was $25,140, primarily related to AirBoss Defense Group's carryover inventory of nitrile gloves, and raw material safety stock at the Rubber Solutions segment;
- Cash from prepaid expenses was $727 primarily from taking delivery of inventory paid by deposit;
- Cash used for trade and other payables was $19,997 due to lower volumes at AirBoss Defense Group, partially offset by increased activity at the Rubber Solutions and Engineered Products segments.
- Cash used for provisions of $1,828 related to the payout of preferred share units and payments to former owners of acquired businesses.

Investing Activities

Property, Plant and Equipment

For the year ended December 31, 2022, the following investments were made in each segment:

AirBoss Defense Group invested $1,292. $408 was invested in growth initiatives, and the balance was invested to replace or upgrade existing property, plant and equipment.

Rubber Solutions invested $6,548. $1,267 was invested in growth initiatives, $1,310 in cost savings initiatives, and the balance was invested to replace or upgrade existing property, plant and equipment.

Engineered Products invested $960. $206 was invested in growth initiatives, $352 was invested in cost savings initiatives, and the balance was invested to replace or upgrade existing property, plant and equipment.

Intangible assets

The Company invested $1,392 on productivity software and rolling out company-wide enterprise software.

Financing activities

In September 2021 the Company updated its credit facilities to increase revolving credit availability to $250 million from $150 million with an accordion of $75 million (from $50 million) upon the satisfaction of customary conditions for such features. The facility bears interest at LIBOR plus applicable margins from 145 to 250 basis points, depending on covenants, and matures on September 23, 2026. Proceeds from the new facility were used to repay the Company's term loan and fund upfront payments related to acquisition of finished goods and other inventories, related primarily to execution on existing contracts. The Company expects to modify the credit facilities in March 2023 to convert borrowing rates from LIBOR to SOFR in line with market-wide changes. This change is not expected to have a material impact on the consolidated financial statements.

In September 2022, the Company's lenders agreed to exclude the $57 million charge related to the nitrile gloves from the calculation of financial covenants.

In April 2021 the Company's previous credit facility was amended to increase the revolving facility from $60 million to $150 million.

Deferred financing fees, less accumulated amortization have been deducted against borrowings for presentation purposes.

The fees are being amortized over the term of the credit facilities and $376 (2021: $324) has been amortized and is included in finance costs.

Interest expense under the credit facility was $4,441 (2021: $3,817).

Commitments and contractual obligations

The Company's contractual obligations as at December 31, 2022 are summarized below:

	Payments Due In						
	2023	**2024**	**2025**	**2026**	**2027**	**Thereafter**	**Total**
Revolving line of credit	–	–	–	130,048	–	–	130,048
Lease liabilities	2,286	2,155	2,153	2,257	2,388	3,768	15,007
Purchase obligations	30,854	–	–	–	–	–	30,854
Total	33,140	2,155	2,153	132,305	2,388	3,768	175,909

Government assistance

Scientific research and investment tax credits of $839 were recognized in 2022 (2021: $813); research and development expenses were reduced accordingly.

On May 1, 2020, the Company received a $6,422 loan pursuant to the Paycheck Protection Program under Division A, Title I of the CARES Act, to fund certain payroll and business expenses of the Company's Michigan and North Carolina operations. This loan bore interest at 1.0% and was scheduled to mature on May 1, 2022. On June 30, 2021, the loan and accrued interest were forgiven and the Company recorded a reduction to cost of sales and operating expenses of $5,560 and $936, respectively, in the consolidated statement of profit.

The Government of Canada provided the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") to support businesses affected by COVID-19 based on certain criteria, including demonstration of revenue declines as a 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 $0.10 CAD per share was declared on November 8, 2022 and paid on January 16, 2023. Total dividends declared during the year were $0.40 CAD per common share compared to $0.37 per common share in 2021.

Outstanding shares

As at December 31, 2022 the Company had 27,092,041 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

During the year, the Company paid $168 (2021: $176) to companies controlled by the Chairman & CEO of the Company for use of office facilities.

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

December 31

	2022	2021
Salaries and other short-term benefits	**4,175**	6,297
Share-based payment expense (recovery)	**(5,313)**	8,332
	(1,138)	14,629

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 21.0% of the outstanding common shares as at December 31, 2022 (2021: 21.0%).

In March 2018, the Company provided a share purchase loan of CAD $500 to the President & COO that bears interest at 1%, maturing March 2023. In June 2019, the Company provided share purchase loans of CAD $300 to the Executive Vice President, General Counsel; and CAD $92 to the President & COO that bear interest at 2%, maturing June 2024. The loan to the Executive Vice President, General Counsel was repaid in May 2022. In April 2022 the Company loaned $1,750 to the Chief Executive Officer of ADG, secured by shares of the Company, bearing interest at 1%, maturing April 2023. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities, and maturity. All share purchase loans are full recourse and interest is due and payable semi-annually. In total, 141,178 shares of the Company having a fair value of $776 were pledged as collateral on these loans. At December 31, 2022, the loan receivable of $2,203, including accrued interest, were included in Other Assets on the consolidated statement of financial position. During the year, interest revenue of $8 (2021: $7) was received.

NEW STANDARDS ADOPTED

Amendments to IAS 37 , *Provisions, Contingent Liabilities and Contingent Assets*

The amendment specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to the contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling that contract. This amendment did not have a material impact on the consolidated financial statements.

FUTURE ACCOUNTING STANDARDS

Certain new accounting standards and interpretations have been published that are not mandatory for the current period and have not been early adopted. Of those standards applicable to the Company none are expected to have a material impact on its consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

The Company's preparation of consolidated 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 trade and other receivables and inventories, valuation of goodwill and other long-lived assets, accounting for income taxes, and government assistance.

Valuation of Accounts receivable

As at December 31, 2022, AirBoss Defense Group recorded a $482 (2021: $252) allowance for impairment and the Rubber Solutions segment recorded a $243 (2021: $349) 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 forecast 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, 2022, a reserve for impaired inventory in the Rubber Solutions segment represents $732 (2021: $832). AirBoss Defense Group maintains a provision of $60,817 (2021: $7,101) and the Engineered Products segment maintains a provision of $1,515 (2021: $498).

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 2022 or 2021.

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 2022, there are no indicators of impairment based on assumptions which they believe to be reasonable and no impairment charge was recorded.

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 amounts 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 17 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.

FINANCIAL INSTRUMENTS

Foreign exchange hedge

At December 31, 2022, the Company had contracts to sell $24,662 from January 2023 to September 2023 for Canadian dollars ("CAD") $33,000. The fair value of these contracts, representing an unrealized loss of $258, are included in trade and other payables, including derivatives on the consolidated statement of financial position. The unrealized changes in fair value, representing a loss of $205 (2021: $673), are recorded on the statement of profit as other expenses.

Interest rate swap

In December 2020, the Company entered into an interest rate swap agreement for a notional amount of $28,125 ($24,375 as at December 31, 2022) 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%. In February 2023, the Company entered into an interest rate swap agreement for a notional amount of $25,000, maturing in February 2025. The swap agreement calculates interest based on the difference between the floating rate of SOFR and a fixed rate of 4.31%.

During 2022, interest recovery on the swap agreement was $310 (2021: expense of $44).

At December 31, 2022, the fair value of this agreement, representing a gain of $52 (2021: $48), is included in loans and borrowings on the consolidated statement of financial position. The change in the fair value, representing a gain of $4 (2021: $105), is recorded on the consolidated statement of profit as finance costs. The Company entered into the interest rate swap agreements to fix the interest rate on a portion of its borrowings and does not hold them for trading or speculative purposes.

Share price hedge

In November 2022, the Company entered into hedging arrangements to reduce its exposure to the change in share price related to its share-based compensation. At December 31, 2022, the fair value of these agreements, representing a gain of $223 is included in trade and other receivables, including derivatives on the consolidated statement of financial position. The change in the fair value, representing a gain of $223, is recorded on the consolidated statement of profit (loss) as other expenses.

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.

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 the majority of 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	**2022**	2021
Natural and synthetic rubber	**(8.19)**	(7.27)
Chemicals (Rubber mixing)	**(4.42)**	(3.64)
Steel	**(2.82)**	(2.55)
Carbon black	**(3.60)**	(2.45)
Silicone	**(0.83)**	(0.75)
	(19.86)	(16.66)

Competition and Price Pressure

The Company competes directly against major North American and international companies. 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.

Litigation

In December 2022, a statement of claim was filed in the Ontario Superior Court of Justice against AirBoss and several named officers. The applicants under the proceeding seek an order for leave to proceed under the Securities Act (Ontario), certifying the proceeding as a class proceeding and appointing them as representative plaintiffs. The applicants seek, among other relief, a declaration that the Company made misrepresentations contrary to the Securities Act (Ontario) during a period extending from November 9, 2021 to September 6, 2022, as well as unspecified damages. No provision for contingent losses has been recognized in the Company's annual consolidated financial statements.

In addition to ongoing litigation, the Company may become party to litigation from time to time in the ordinary course of business which could adversely affect our business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for our shares, and could require the use of significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant Company resources.

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 and personal protective equipment from the United States, Canadian or other foreign governments or agencies 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 CAD and 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 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 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	**2022**	2021
Sales (1)	**(1.9)**	(1.8)
Purchases (2)	**6.1**	6.5

(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 outbreaks is not known with any certainty and the Company is unable to accurately project the ultimate impact on the business. However, if outbreaks continue for an extended period of time, AirBoss may continue to experience supply chain and logistics challenges, in particular given production delays throughout the world, a decline in sales activities, and reductions in operations and workforce.

Dependence on Key Customers and Contracts

From time to time, a significant portion of the Company's sales for a given period may be represented by a relatively small number of customers. Net sales from one customer represent approximately 9% (2021: 40%) of consolidated net sales in 2022. Five customers represented 33% (2021: 56%) of consolidated net sales in 2022. 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.

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 over 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 and suppliers, 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.

Climate Change Risks

Extreme weather events such as floods and windstorms and other natural disasters such as earthquakes caused by climate could cause catastrophic destruction to some of our or our sub-suppliers’ facilities, which could in turn disrupt our production and/or prevent us from supplying products to our customers. While we conduct risk assessments of our facilities and have implemented mitigation strategies to address, where practical, physical risks related to extreme weather events or natural disasters, the frequency and severity of any such event can vary by region and cannot be predicted. A catastrophic destruction of our or our sub-supplier facilities could have a material adverse effect on our operations and profitability.

IT/Cybersecurity Risks

Although we have established and continue to enhance security controls intended to protect our IT systems and infrastructure, there is no guarantee that such security measures will be effective in preventing unauthorized physical access or cyber-attacks. A significant breach of our IT systems could: result in theft of funds; cause disruptions in our manufacturing operations; lead to the loss, destruction or inappropriate use of sensitive data; or result in theft of our, our customers’ or our suppliers’ intellectual property or confidential information. The occurrence of any of the foregoing could adversely affect our operations and/or reputation, and could lead to claims against us that could have a material adverse effect 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 Chairman & CEO, and CFO, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our Chairman & CEO, and CFO concluded that the design and operation of our disclosure controls and procedures were effective as of December 31, 2022, 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 Chairman & CEO, and 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 Chairman & 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 to provide reasonable assurance regarding the reliability of the Company’s financial reporting and its compliance with IFRS in its consolidated financial statements. The Chairman & CEO, and 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, 2022 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 consolidated financial statements have been prepared by management, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. 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 consolidated 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, 2022 and December 31, 2021 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 13, 2023

P. Gren Schoch
Chairman and Chief Executive Officer

Frank Ientile
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of AirBoss of America Corp.

Opinion

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

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of profit (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of our auditor’s report.

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

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

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, 2022. 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 auditor’s report.

Evaluation of impairment of goodwill

Description of the matter

We draw attention to Notes 2(d), 3(e)(i) and 10 to the financial statements.

The goodwill balance included in intangible assets is $51,577 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 primary procedures we performed to address this key audit matter included the following:

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 ranges that were 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.

Assessment of nitrile gloves inventory

Description of the matter

We draw attention to Notes 3 (f) and 7 to the financial statements. Inventories are measured at the lower of cost and net realizable value. 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 that the net realizable value is less than cost. The Entity had finished goods inventory of $92,745 thousand, a portion of which related to nitrile gloves inventory. The Entity recorded inventory provisions for the write-down of inventories of $63,064 thousand, which included a specific provision of $54,500 related to nitrile gloves inventory.

Why the matter is a key audit matter

We identified the assessment of nitrile gloves inventory as a key audit matter. This matter was a key audit matter because it required significant auditor attention in performing the audit. An increased extent of audit effort was needed to address this matter.

How the matter was addressed in the audit

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

As it relates to the write-down of the nitrile gloves inventory, we evaluated the condition of the inventory to assess the appropriateness of the write-down.

For the remaining nitrile gloves inventory, we:

- Counted a sample of inventory to verify quantities on hand.
- Examined a sample of shipping documents for inventory in-transit.
- Assessed the net realizable value by evaluating the physical condition of the inventory and comparing the net realizable value to recent sales invoices

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 auditor's report thereon, included in a document likely to be entitled "2022 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 auditor's 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 auditor's report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2022 Annual Report" is expected to be made available to us after the date of this auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as issued by the IASB, 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 auditor's 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 auditor's 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 auditor's 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 auditor's 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 auditor's 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 auditor's report is David Brendan Power.

Vaughan, Canada
March 13, 2023

Consolidated Statement of Financial Position

In thousands of US dollars	Note	**December 31, 2022**	December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents		**18,552**	7,131
Trade and other receivables, including derivatives	*6, 12*	**94,628**	82,440
Prepaid expenses		**9,310**	10,032
Inventories	*7*	**92,833**	122,147
Current income taxes receivable	*17*	**8,466**	6,136
Total current assets		**223,789**	227,886
Non-current assets			
Property, plant and equipment	*8, 9*	**89,292**	93,148
Intangible assets	*10*	**113,237**	121,075
Deferred Income tax assets	*17*	**11,799**	–
Other assets	*11*	**2,649**	1,155
Total non-current assets		**216,977**	215,378
Total assets		**440,766**	443,264
LIABILITIES			
Current liabilities			
Loans and borrowings	*9, 13*	**2,286**	2,356
Trade and other payables, including derivatives	*12*	**85,239**	103,026
Provisions	*14*	**2,108**	2,840
Current taxes payable	*17*	**609**	–
Total current liabilities		**90,242**	108,222
Non-current liabilities			
Loans and borrowings	*9, 13*	**141,356**	78,207
Employee benefits	*20*	**408**	579
Provisions	*14*	**8,548**	17,511
Deferred income tax liabilities	*17*	**3,215**	3,597
Total non-current liabilities		**153,527**	99,894
Total liabilities		**243,769**	208,116
EQUITY			
Share capital	*15*	**87,811**	87,937
Contributed surplus	*15*	**4,598**	2,531
Retained earnings		**104,588**	144,680
Total equity		**196,997**	235,148
Total liabilities and equity		**440,766**	443,264

The notes on pages 33 to 63 are an integral part of these consolidated financial statements.
Commitments (note 19), Subsequent events (notes 12 and 23).

On behalf of the Board

P.G. Schoch
Director

Robert L. McLeish
Director

Consolidated Statement of Profit (loss) and Comprehensive income (loss)

For the year ended December 31 *In thousands of US dollars*	*Note*	**2022**	2021
Net Sales		**477,155**	586,858
Cost of sales	*7*	**(453,024)**	(450,560)
Gross profit		**24,131**	136,298
General and administrative expenses	*3*	**(46,478)**	(52,918)
Selling and marketing expenses		**(8,223)**	(20,729)
Research and development expenses	*18*	**(3,390)**	(3,652)
Other expenses		**(714)**	(289)
Operating expenses		**(58,805)**	(77,588)
Results from operating activities		**(34,674)**	58,710
Finance costs	*13, 20*	**(5,738)**	(4,178)
Profit (loss) before income tax		**(40,412)**	54,532
Income tax recovery (expense)	*17*	**8,520**	(7,829)
Profit (loss) and comprehensive income (loss)		**(31,892)**	46,703
Earnings (loss) per share			
Basic	*16*	**(1.18)**	1.73
Diluted	*16*	**(1.18)**	1.65

The notes on pages 33 to 63 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company			
In thousands of US dollars	Share Capital	Contributed Surplus	Retained Earnings	Total equity
Balance at January 1, 2021	87,060	1,578	105,950	194,588
Profit and comprehensive income for the year	–	–	46,703	46,703
Contributions by and distributions to owners				
Stock options expensed	–	1,196	–	1,196
Share options exercised	877	(220)	–	657
Share options forfeited	–	(23)	–	(23)
Dividends to equity holders	–	–	(7,973)	(7,973)
Total contributions by and distributions to owners	877	953	(7,973)	(6,143)
Balance at December 31, 2021	87,937	2,531	144,680	235,148

	Attributable to equity holders of the Company			
In thousands of US dollars	Share Capital	Contributed Surplus	Retained Earnings	Total equity
Balance at January 1, 2022	87,937	2,531	144,680	235,148
Loss and comprehensive loss for the year	–	–	(31,892)	(31,892)
Contributions by and distributions to owners				
Stock options expensed	–	1,600	–	1,600
Share options exercised	(622)	(71)	–	(693)
Share options forfeited	–	(53	–	(53)
Shares issued	496	–	–	496
Deferred share unit reclassified as equity (notes 14, 15)	–	591	–	591
Dividends to equity holders	–	–	(8,200)	(8,200)
Total contributions by and distributions to owners	(126)	2,067	(8,200)	(6,259)
Balance at December 31, 2022	87,811	4,598	104,588	196,997

The notes on pages 33 to 63 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31 *In thousands of US dollars*	*Note*	**2022**	2021
Cash flows from operating activities			
Profit (loss) for the year		**(31,892)**	46,703
Adjustments for:			
Depreciation	*8, 9*	**12,609**	13,135
Amortization of intangible assets	*10*	**9,296**	7,746
Write-down of inventory	*7*	**57,001**	–
Finance costs	*13, 20*	**5,738**	4,178
Unrealized foreign exchange gains		**135**	1,012
Share-based payment expense (recovery)	*14, 15*	**(5,394)**	9,448
SRED tax credits	*18*	**(839)**	(813)
Income tax (recovery) expense	*17*	**(8,520)**	7,829
Government assistance loan forgiveness	*18*	**–**	(6,496)
Other		**(158)**	(168)
		37,976	82,574
Change in inventories		**(25,140)**	(74,376)
Change in trade and other receivables		**(12,252)**	(12,074)
Change in prepaid assets		**727**	(3,065)
Change in trade and other payables		**(19,997)**	25,038
Change in provisions		**(1,828)**	(1,069)
Net change in non-cash working capital balances		**(58,490)**	(65,546)
Interest paid		**(5,556)**	(3,542)
Income tax paid		**(4,705)**	(11,463)
Net cash provided by (used in) operating activities		**(30,775)**	2,023
Cash flows from investing activities			
Cash acquired on acquisition of subsidiary	*4, 5*	**–**	1,946
Cash paid to acquire subsidiary	*4, 5*	**–**	(48,521)
Proceeds from sale of property, plant and equipment		**3**	9
Acquisition of property, plant and equipment	*8*	**(8,800)**	(16,912)
Expenditures on intangible assets	*10*	**(1,392)**	(1,081)
Net cash used in investing activities		**(10,189)**	(64,559)
Cash flows from financing activities			
Repayment of borrowings		**–**	(71,883)
Proceeds from operating line of credit		**65,100**	65,000
Principal payments for lease liabilities		**(2,364)**	(2,354)
Payment of debt refinancing fees		**–**	(1,593)
Exercise of stock options (net of withholding tax)		**(693)**	656
Repayment of share purchase loans	*11*	**239**	–
Issuance of share purchase loans	*11*	**(1,750)**	–
Interest received on share purchase loan		**8**	7
Dividends paid	*15*	**(8,338)**	(7,359)
Net cash provided by (used in) financing activities		**52,202**	(17,526)
Net (decrease) / increase in cash and cash equivalents		**11,238**	(80,062)
Cash and cash equivalents at January 1		**7,131**	86,970
Effect of exchange rate fluctuations on cash held		**183**	223
Cash and cash equivalents at December 31		**18,552**	7,131

The notes on pages 33 to 63 are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements ("CFS")

For the years ended December 31, 2022 and 2021
(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 and cross-traded on the OTCQX® Best Market in the United States, incorporated and domiciled in Ontario. Its registered office is located at 16441 Yonge Street, Newmarket, Ontario, Canada. AirBoss of America Corp. and its subsidiaries are together referred to, in these 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 21).

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

List of Subsidiaries

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

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

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.

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. A majority of the Company's operations fall within essential businesses classifications and have continued to operate throughout the pandemic. In 2021, the Company continued to experience significant supply challenges and record raw material price increases. The Engineered Products segment was further challenged as electronic chip shortages caused original equipment manufacturers to shutter production. The effect of COVID-19 continued into 2022 but with a smaller impact on operations. The ultimate business and economic impacts of COVID-19 will depend on a variety of factors, including the possibility of shutdowns, impacts on customers and suppliers, the rate at which economic conditions return to pre-COVID-19 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") as issued by the International Accounting Standards Board.

The Consolidated financial statements were authorized for issue by the Board of Directors on March 13, 2023.

(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 trade and other receivables, inventories, 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 and 5 – fair value of assets acquired in a business combination and fair value of contingent consideration

Note 6 – trade and other receivables

Note 7 – inventories

Note 9 – leases

Note 10 – intangible assets

Note 17 – income taxes

Note 18 – 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 10 – intangible assets - key assumptions used in value-in-use calculations;

Note 14 – provisions;

Note 15 – capital and other components of equity;

Note 17 – income taxes;

Note 19 – commitments and contingencies; and

Note 20 – 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. Contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value are recognized in profit or loss.

(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 information of subsidiaries is 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 consolidated 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 within other expenses in the consolidated statement of profit (loss).

(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 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 statement of profit (loss). Transaction costs incurred are expensed in the consolidated statement of profit (loss).

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 (loss). When an investment is derecognized, the accumulated gain or loss in other comprehensive income (loss) 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 statement 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 expenses in the consolidated statement of profit (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 research and development 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 10-17 years
- brands, patents and trademarks 8-10 years

(f) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of manufactured 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 locations and conditions. Inventory that is not interchangeable is determined on an individual item basis and includes expenditures incurred in acquiring the inventories, shipping and logistics costs. 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 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 is 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. Net sales for other services are recognized upon acceptance 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 the Chairman & CEO, and President & COO (the chief operating decision makers) 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.

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 IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*

The amendment specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to the contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling that contract. This amendment did not have a material impact on the consolidated financial statements.

(q) Future Accounting Standards

Certain new accounting standards and interpretations have been published that are not mandatory for the current period and have not been early adopted. Of those standards applicable to the Company none are expected to have a material impact on its consolidated financial statements.

NOTE 4 ACQUISITION OF ACE ELASTOMER, INC.

On August 31, 2021, the Company acquired 100% ownership of Ace for $42.5 million in cash, adjusted for working capital.

Acquisition-related costs

The Company incurred acquisition-related costs of $275 on professional fees and due diligence costs that were included in general and administrative expenses in 2021.

Consideration transferred

The following table summarizes acquisition date fair value of consideration transferred.

Cash paid on closing	39,958
Cash held back and to be settled in accordance with purchase agreement	2,542
Holdback not paid	(214)
	42,286
Cash for excess working capital	371
Total consideration transferred	42,657

Identifiable assets acquired and liabilities assumed

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

Fair value of assets acquired:	
Cash and cash equivalents	540
Restricted cash to settle Ace's outstanding debt	638
Trade and other receivables	2,522
Prepaid expenses	429
Inventories	2,169
Property, plant, and equipment	1,691
Trade name	3,300
Customer relationships	17,060
Unpatented know-how	5,540
Non-compete agreements with employees	90
Total assets	33,979
Value of liabilities assumed:	
Trade and other payables	1,852
Debt	633
Total liabilities assumed	2,485
Net assets acquired	31,494

The fair value of Ace's intangible assets have been measured through an independent valuation based on the following key assumptions: financial forecasts, customer attrition rates, estimated technical obsolescence rates, discount rates and royalty rates. The following methodologies were used: Relief From Royalty, Multi Period Excess Earnings, and With and Without Income approach.

Goodwill

Goodwill arising from the acquisition has been recognized as follows.

Consideration transferred	42,657
Fair value of identifiable net assets	(31,494)
Goodwill	11,163

The valuation of goodwill is attributable mainly to the skills and technical talent of Ace's work force, and the synergies expected to be achieved from integrating Ace into AirBoss Rubber Solutions.

NOTE 5 ACQUISITION OF BLACKBOX BIOMETRICS, INC.

On May 17, 2021, the Company acquired B3. $7.6 million in cash was paid on closing and up to an additional $20.0 million will be paid in royalties over eight years, based on revenues earned from B3 products.

Acquisition-related costs

The Company incurred acquisition-related costs of $170 on professional fees and due diligence costs that were included in general and administrative expenses in 2021.

Consideration transferred

The following table summarizes acquisition date fair value of consideration transferred:

Cash	7,615
Contingent consideration	9,008
Total consideration transferred	16,623

Identifiable assets acquired and liabilities assumed

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

Fair value of assets acquired:	
Cash and cash equivalents	768
Trade and other receivables	121
Prepaid expenses	357
Inventories	77
Property, plant, and equipment	102
Computer software	42
Patents and trademarks	13,410
Total assets	14,877
Value of liabilities assumed:	
Trade and other payables	320
Deferred taxes	2,878
Total liabilities assumed	3,198
Net assets acquired	11,679

The fair value of B3's intangible assets (patents and trademarks) have been measured through an independent valuation based on the following key assumptions: financial forecasts, estimated technical obsolescence rates, discount rates and royalty rates using the following methodologies: Relief From Royalty and Multi Period Excess Earnings.

Contingent consideration was measured on a discounted cash flow basis, reflecting the present value of undiscounted expected future payments of $20.0 million which is the expected payout based on forecast revenues at that date, discounted using a risk adjusted discount rate of 25%.

Goodwill

Goodwill arising from the acquisition has been recognized as follows.

Consideration transferred	16,623
Fair value of pre-existing interest in B3	417
Fair value of identifiable net assets	(11,679)
Goodwill	5,361

The remeasurement to fair value of the Company's pre-existing 2.5% interest in B3 resulted in a loss of $76 ($417 less the $493 carrying amount of the investment). This amount has been included in finance costs.

The goodwill is attributable mainly to the skills and technical talent of B3's work force, and the synergies expected to be achieved from integrating B3 into AirBoss Defense Group.

NOTE 6 TRADE AND OTHER RECEIVABLES

December 31	2022	2021
Trade receivables	**93,367**	80,861
Less: expected credit loss	**(725)**	(601)
	92,642	80,260
Other receivables	**1,986**	2,180
	94,628	82,440

Impairment losses

The aging of trade receivables at the reporting date was:

	2022		2021	
December 31	**Gross**	**Impairment**	Gross	Impairment
Within terms	**70,382**	**–**	64,776	–
Past due 0-30 days	**14,117**	**–**	10,520	–
Past due 31-120 days	**8,868**	**(725)**	5,565	(601)
	93,367	**(725)**	80,861	(601)

The continuity of the allowance for impairment was:

For the year ended December 31	2022	2021
Balance at January 1	**(601)**	(750)
Impairment loss recognized	**(251)**	(188)
Collected	**74**	292
Revised estimate	**53**	45
Balance at December 31	**(725)**	(601)

NOTE 7 INVENTORIES

December 31	2022	2021
Raw materials and consumables	**53,305**	49,338
Work in progress	**8,205**	3,734
Finished goods	**92,745**	76,848
Inventory in transit	**1,642**	658
	155,897	130,578
Provisions	**(63,064)**	(8,431)
	92,833	122,147

An inventory charge of $54,633 (2021: charge of $1,974) was included in cost of sales. During the quarter ended September 30, 2022, AirBoss Defense Group recorded a $57,001 provision related to its inventory of nitrile gloves due to significant downward shifts in pricing and some gloves no longer meeting ADG's safety standards. Of the total provision, $54,500 was recorded in inventory and $2,501 was recorded in trade and other payables, including derivatives.

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings[1]	Plant and equipment[1]	Furniture and equipment[1]	Under construction	Total
Cost					
Balance at January 1, 2021	40,807	102,830	3,819	5,861	153,317
Acquisition of subsidiary	1,811	1,939	184	27	3,961
Additions	5,030	2,165	408	13,901	21,504
Disposals	(846)	(66)	–	–	(912)
Transfers	5,586	856	(1,365)	(5,077)	–
Balance at December 31, 2021	52,388	107,724	3,046	14,712	177,870
Additions	412	1,554	176	6,678	8,820
Disposals	–	(1,024)	–	–	(1,024)
Transfers	1,151	12,537	(217)	(13,713)	(242)
Balance at December 31, 2022	53,951	120,791	3,005	7,677	185,424
Accumulated Depreciation					
Balance at January 1, 2021	14,477	55,410	2,176	–	72,063
Acquisition of subsidiary	–	498	–	–	498
Depreciation for the period	3,390	9,113	632	–	13,135
Disposals	(937)	(37)	–	–	(974)
Transfers	959	(438)	(521)	–	–
Balance at December 31, 2021	17,889	64,546	2,287	–	84,722
Depreciation for the period	3,751	8,612	246	–	12,609
Disposals	–	(1,024)	–	–	(1,024)
Transfers	–	180	(355)	–	(175)
Balance at December 31, 2022	21,640	72,314	2,178	–	96,132

(1) includes right of use assets. See note 9 for additional details.

Carrying amounts

In thousands of US dollars	Land and buildings	Plant and equipment	Furniture and equipment	Under construction	Total
Balance at December 31, 2021	34,499	43,178	759	14,712	93,148
Balance at December 31, 2022	32,311	48,477	827	7,677	89,292

Depreciation expense of $11,913 (2021: $12,442) was charged to cost of sales, $630 (2021: $673) was charged to general and administrative expense and $66 (2021: $21) was charged to research and development expenses.

NOTE 9 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 6 years.

Right-of-Use Assets

	Land and buildings	Equipment	Total
Cost			
Balance at January 1, 2021	13,525	1,852	15,377
Acquisition of subsidiary	1,593	78	1,671
Lease additions	4,517	75	4,592
Disposals	(846)	(5)	(851)
Balance at December 31, 2021	18,789	2,000	20,789
Lease additions	–	20	20
Balance at December 31, 2022	18,789	2,020	20,809
Accumulated depreciation			
Balance at January 1, 2021	2,775	465	3,240
Depreciation	1,999	385	2,384
Disposals	(846)	(5)	(851)
Balance at December 31, 2021	3,928	845	4,773
Depreciation	2,069	436	2,505
Balance at December 31, 2022	5,997	1,281	7,278
Carrying amount at December 31, 2021	14,861	1,155	16,016
Carrying amount at December 31, 2022	12,792	739	13,531

Lease Liabilities

Interest expense on lease liabilities of $708 (2021: $764) is included in Finance Costs.

Cash outflow related to leases was $3,072 (2021: $3,118).

The future undiscounted contractual lease payments are as follows:

In thousands of US dollars	**Total**	**2023**	**2024**	**2025**	**2026**	**2027**	**Thereafter**
Lease payments	17,181	2,772	2,656	2,570	2,538	2,592	4,053

NOTE 10 INTANGIBLE ASSETS

	Goodwill	Customer Relationships	Brands, Patents and Trademarks	Software and Development costs	Total
Cost					
Balance at January 1, 2021	35,053	46,150	8,687	6,961	96,851
Acquisition of subsidiary	16,524	17,060	22,341	41	55,966
Additions	–	–	–	1,081	1,081
Balance at December 31, 2021	51,577	63,210	31,028	8,083	153,898
Additions	–	–	196	1,196	1,392
Transfers	–	–	–	241	241
Balance at December 31, 2022	51,577	63,210	31,224	9,520	155,531
Accumulated Amortization					
Balance at January 1, 2021	–	20,139	819	4,119	25,077
Amortization for the year	–	4,863	2,268	615	7,746
Balance at December 31, 2021	–	25,002	3,087	4,734	32,823
Amortization for the year	–	5,618	2,913	765	9,296
Disposals	–	–	–	175	175
Balance at December 31, 2022	–	30,620	6,000	5,674	42,294
Carrying amounts					
Balance at December 31, 2021	51,577	38,208	27,941	3,349	121,075
Balance at December 31, 2022	51,577	32,590	25,224	3,846	113,237

Amortization expense of $9,296 (2021: $7,746) was charged to general and administrative expense. Remaining amortization for customer relationships acquired is 1 to 16 years and patents and trademarks is 2 to 7 years.

Goodwill

December 31	**2022**	2021
AirBoss Defense Group	**30,349**	30,349
Rubber Solutions	**11,163**	11,163
Engineered Products	**10,065**	10,065
	51,577	51,577

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, 2022 and December 31, 2021, 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 of 12.3% to 14.4% 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 rubber, 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 amounts of goodwill exceed their net recoverable amounts.

NOTE 11 OTHER ASSETS

	Share purchase loans[1]	Other	Total
Balance at January 1, 2021	704	939	1,643
Accrued interest	10	–	10
Interest paid	(7)	–	(7)
Effect of movements in exchange rates	2	–	2
Investment eliminated upon acquiring control of B3 (note 5)	–	(493)	(493)
Balance at December 31, 2021	709	446	1,155
Accrued interest	20	–	20
Interest paid	(8)	–	(8)
Repayment of loan	(239)	–	(239)
New loan issuances	1,750	–	1,750
Effect of movements in exchange rates	(29)	–	(29)
Balance at December 31, 2022	2,203	446	2,649

(1) see note 22 for additional details.

NOTE 12 DERIVATIVES NOT DESIGNATED IN A FORMAL HEDGING RELATIONSHIP

Foreign exchange hedge

At December 31, 2022, the Company had contracts to sell $24,662 from January 2023 to September 2023 for Canadian dollars ("CAD") $33,000. The fair value of these contracts, representing an unrealized loss of $258, are included in trade and other payables, including derivatives on the consolidated statement of financial position. The unrealized changes in fair value, representing a loss of $205 (2021: $673), are recorded on the statement of profit as other expenses.

At December 31, 2021, the Company had contracts to sell $16,617 from January 2022 to September 2022 for CAD $21,000. The fair value of these contracts, representing an unrealized loss of $53 are included in trade and other payables including derivatives on the consolidated 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 ($24,375 as at December 31, 2022) 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%. In February 2023, the Company entered into an interest rate swap agreement for a notional amount of $25,000, maturing in February 2025. The swap agreement calculates interest based on the difference between the floating rate of SOFR and a fixed rate of 4.31%.

During 2022, interest recovery on the swap agreement was $310 (2021: expense of $44).

At December 31, 2022, the fair value of this agreement, representing a gain of $52 (2021: $48), is included in loans and borrowings on the consolidated statement of financial position. The change in the fair value, representing a gain of $4 (2021: $105), is recorded on the consolidated statement of profit as finance costs. The Company entered into the interest rate swap agreements to fix the interest rate on a portion of its borrowings and does not hold them for trading or speculative purposes.

Share price hedge

In November 2022, the Company entered into hedging arrangements to reduce its exposure to the change in share price related to its share-based compensation. At December 31, 2022, the fair value of these agreements, representing a gain of $223 is included in trade and other receivables, including derivatives on the consolidated statement of financial position. The change in the fair value, representing a gain of $223, is recorded on the consolidated statement of profit (loss) as other expenses.

NOTE 13 LOANS AND BORROWINGS

December 31	**2022**	2021
Non-current		
Revolving line of credit	**130,100**	65,000
Interest rate swap	**(52)**	(48)
Lease liabilities	**12,721**	15,043
Less: deferred financing	**(1,413)**	(1,788)
	141,356	78,207
Current		
Lease liabilities	**2,286**	2,356
	2,286	2,356

December 31	**2022**	2021
Revolving line of credit	**130,100**	65,000
Interest rate swap	**(52)**	(48)
Lease liabilities	**15,007**	17,399
Subtotal	**145,055**	82,351
Less principal due within one year	**(2,286)**	(2,356)
	142,769	79,995
Less deferred financing	**(1,413)**	(1,788)
	141,356	78,207

In September 2021 the Company updated its credit facilities to increase revolving credit availability to $250 million from $150 million with an accordion of $75 million (from $50 million) upon the satisfaction of customary conditions for such features. The facility bears interest at LIBOR plus applicable margins from 145 to 250 basis points, depending on covenants, and matures on September 23, 2026. Proceeds from the new facility were used to repay the Company's term loan and fund upfront payments related to acquisition of finished goods and other inventories, related primarily to execution on existing contracts. The Company expects to modify the credit facilities in March 2023 to convert borrowing rates from LIBOR to SOFR in line with market-wide changes. This change is not expected to have a material impact on the consolidated financial statements.

In September 2022, the Company's lenders agreed to exclude the $57 million charge related to the nitrile gloves from the calculation of financial covenants.

In April 2021 the Company's previous credit facility was amended to increase the revolving facility from $60 million to $150 million.

Deferred financing fees, less accumulated amortization have been deducted against borrowings for presentation purposes.

The fees are being amortized over the term of the credit facilities and $376 (2021: $324) has been amortized and is included in finance costs.

Interest expense under the credit facility was $4,441 (2021: $3,817).

Principal repayments on the loans and borrowings are as follows:

	Total	2023	2024	2025	2026	2027	Thereafter
Revolving line of credit	130,048	–	–	–	130,048	–	–
Lease liabilities	15,007	2,286	2,155	2,153	2,257	2,388	3,768
	145,055	2,286	2,155	2,153	132,305	2,388	3,768

As at December 31, 2022, $130,813 was drawn against the credit facility (2021: $65,713).

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, 2022 the Company is not in default, nor has it breached any terms of the credit agreement relating to the credit facilities.

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

	Carrying amount		Fair value	
	2022	2021	**2022**	2021
Revolving line of credit and interest rate swap	**128,635**	63,164	**130,156**	65,022
Lease liabilities	**15,007**	17,399	**13,726**	18,739

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 6.3% (2021: 2.1%) for the credit facility and lease liabilities.

NOTE 14 PROVISIONS

	Site restoration	Legal	PSUs and DSUs	Payable to former owners of acquired businesses	Total
Balance at January 1, 2021	74	–	2,557	–	2,631
Funds withheld on acquisition on ACE (note 4)	–	–	–	2,542	2,542
Settlement of funds withheld	–	–	–	(792)	(792)
Issued to acquire B3 (note 5)	–	–	–	9,008	9,008
Change in fair value of B3 provision	–	–	–	(289)	(289)
Provisions accrued	–	–	8,403	–	8,403
Payments	–	–	(1,069)	–	(1,069)
Forfeitures	–	–	(129)	–	(129)
Foreign exchange	5	–	41	–	46
Balance at December 31, 2021	79	–	9,803	10,469	20,351
Less: amount due within one year	–	–	(829)	(2,011)	(2,840)
	79	–	8,974	8,458	17,511
Change in accounting estimate	–	–	(591)	–	(591)
Change in fair value of B3 provision	–	–	–	(37)	(37)
Provisions accrued (recovered)	–	11,550	(6,720)	–	4,830
Payments	–	(11,550)	(694)	(1,134)	(13,378)
Forfeitures	–	–	(221)	–	(221)
Foreign exchange	–	–	(298)	–	(298)
Balance at December 31, 2022	79	–	1,279	9,298	10,656
Less: amount due within one year	–	–	(1,072)	(1,036)	(2,108)
	79	–	207	8,262	8,548

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

Performance Awards

The Company has issued 274,841 performance awards to certain executives 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	**2022**	2021
January 1	**224,470**	201,210
New issuances	**79,367**	54,350
Forfeitures	**(11,520)**	(5,847)
Settlements	**(17,476)**	(25,243)
December 31	**274,841**	224,470

During 2022, the Company recognized cost recoveries of $3,691 (2021: costs of $5,577) 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	**2022**	2021
January 1	**112,335**	97,060
New issuances	**22,553**	15,275
December 31	**134,888**	112,335

During 2022, the Company recognized cost recoveries of $3,220 (2021: expense of $2,698) related to DSUs issued under the Omnibus Plan, including costs of $30 following the change in how DSUs are redeemed. In November 2022, the Company notified its directors that the redemption of all existing and future DSUs will only be satisfied in common shares. As a result of this change the Company will no longer record the DSUs at fair value with a corresponding adjustment for the change in fair value recorded in the Statement of Profit and Loss. Instead, the Company will record fair value of the cost of DSUs over their vesting periods based on their fair values at the grant dates.

NOTE 15 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, 2022, 903,907 shares are available (2021: 936,191).

Issued share capital is as follows:

In thousands of shares	**2021**	2021
January 1	**26,993**	26,909
Issued to employee	**20**	–
Exercise of share options	**79**	84
December 31	**27,092**	26,993

Issuance of common shares

During 2022, 122,040 options were exercised resulting in the issuance of 79,079 common shares (2021: 98,764 options exercised).

In December 2022, the Company renewed its normal course issuer bid ("NCIB") to purchase up to 500,000 of its common shares, representing approximately 2.9% of the Company's public float. The Company purchased nil shares (2021: nil) under its NCIB in 2022.

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, 2022, are as follows:

Range of exercise price ($CAD)	**Options outstanding Quantity**	**Weighted average contract life**	**Options exercisable Quantity**
5.14	1,121,477	2.23	511,018
9.49	138,644	1.41	99,979
11.56	1,244	0.22	1,244
16.30	25,000	2.42	12,500
17.53	8,372	2.87	4,186
32.45	208,732	4.21	–
36.01	166,940	3.23	41,735
	1,670,409		670,662

Options granted and outstanding:

A summary of the status of the Company's stock option plan as of December 31, 2022 and 2021 and changes during the years then ended, is presented below:

	2022		2021	
	Quantity	**Weighted average exercise price ($CAD)**	Quantity	Weighted average exercise price ($CAD)
Outstanding beginning of year	**1,650,792**	**9.11**	1,605,426	6.42
Granted	**213,800**	**32.45**	175,279	36.01
Exercised	**(122,040)**	**5.36**	(98,764)	13.50
Forfeited	**(72,143)**	**12.25**	(31,149)	7.87
Outstanding end of year	**1,670,409**	**12.23**	1,650,792	9.11

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

The stock options issued vest as follows:

	Quantity
Vested at December 31, 2022	670,662
2023	446,156
2024	407,491
2025	93,918
2026	52,182
	1,670,409

Stock option and DSU expense

During 2022, the Company recognized employee costs of $1,517 (2021: $1,173) relating to option grants in general and administrative expenses in the consolidated statement of profit (loss), and employee costs of $30 relating to DSUs in general and administrative expenses following the change in how DSUs are redeemed (see note 14).

Dividends

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

	2022		2021	
Shareholder of record at:	**$CAD/share**	**Date Paid**	$CAD/share	Date Paid
March 31	**0.10**	**April 15, 2022**	0.07	April 15, 2021
June 30	**0.10**	**July 15, 2022**	0.10	July 15, 2021
September 30	**0.10**	**October 15, 2022**	0.10	October 15, 2021
December 31	**0.10**	**January 15, 2023**	0.10	January 15, 2022
	0.40		0.37	

The dividend payable at December 31, 2022 was $2,000 (2021: $2,133).

NOTE 16 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*	**2022**	2021
Numerator for basic and diluted earnings per share:		
Net income (loss)	**(31,892)**	46,703
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	**27,071**	26,970
Dilution effect of stock options	**–**	1,224
Dilution of effect of deferred stock units	**–**	104
Diluted weighted average number of shares outstanding	**27,071**	28,298
Profit (loss) per share:		
Basic	**(1.18)**	1.73
Diluted	**(1.18)**	1.65

As of December 31, 2022, 1,670,409 options (2021: nil options) 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 17 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	**2022**	2021
Combined federal and provincial statutory income tax	**(10,709)**	14,452
Foreign tax differential	**2,137**	(1,377)
Effect of permanent differences	**225**	(1,124)
Change in tax rates and new legislation	**259**	(199)
Difference arising on filing and assessments	**(309)**	(543)
Deductible temporary differences not recognized	**(14)**	(3,464)
Other	**(109)**	84
Total expense (recovery)	**(8,520)**	7,829
The components of the provision for income taxes are as follows:		
Current	**3,661**	6,847
Deferred	**(12,181)**	982
Total expense (recovery)	**(8,520)**	7,829

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	**2022**	2021
Deferred income tax assets:		
Non-capital income tax loss carry-forwards	**18,283**	4,353
Deferred income tax deductions relating to long-term liabilities	**–**	169
Equity Compensation	**536**	2,479
Financing fees	**–**	55
Capital assets	**286**	113
Reserve	**5,520**	4,187
Other	**231**	429
	24,856	11,785
Deferred income tax liabilities:		
Reserve	**(73)**	(133)
Capital assets	**(16,096)**	(14,821)
Other	**(103)**	(428)
	(16,272)	(15,382)
Net deferred income tax liabilities	**8,584**	(3,597)
Recorded on the consolidated statement of financial position:		
Deferred income tax assets	**11,799**	–
Deferred income tax liabilities	**(3,215)**	(3,597)
Net	**8,584**	(3,597)

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 $102,981 of unused tax losses (2021: $42,087) available to offset future income taxes in the US. $41,811 of these losses were incurred prior to 2018 and are set to expire starting 2037. Losses incurred after 2017 can be carried forward indefinitely.

The aggregate amount of taxable temporary differences associated with investments in subsidiaries for which no deferred income tax liabilities have been recognized is $11,614 (2021: deductible temporary differences of $55,734).

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	**2022**		2021	
	Gross amount	**Tax effect**	Gross amount	Tax effect
Capital losses	**575**	**72**	575	72
Operating losses	**29,289**	**6,764**	24,608	5,168
Deductible temporary differences	**4,716**	**1,089**	10,523	2,507
	34,580	**7,925**	35,706	7,747

NOTE 18 GOVERNMENT ASSISTANCE

Scientific research and investment tax credits of $839 were recognized in 2022 (2021: $813); research and development expenses were reduced accordingly.

On May 1, 2020, the Company received a $6,422 loan pursuant to the Paycheck Protection Program under Division A, Title I of the CARES Act, to fund certain payroll and business expenses of the Company's Michigan and North Carolina operations. This loan bore interest at 1.0% and was scheduled to mature on May 1, 2022. On June 30, 2021, the loan and accrued interest were forgiven and the Company recorded a reduction to cost of sales and operating expenses of $5,560 and $936, respectively, in the consolidated statement of profit.

The Government of Canada provided the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") to support businesses affected by COVID-19 based on certain criteria, including demonstration of revenue declines as a result of COVID-19. In 2022 the Company did not apply for CEWS. In 2021 the Company applied for CEWS and recorded the subsidy as a reduction to cost of sales and operating expenses of $2,380 and $569, respectively, in the consolidated statement of profit.

NOTE 19 COMMITMENTS AND CONTINGENCIES

Commitments

The Company has purchase commitments of $30,854 (2021: $32,015) for raw materials. Delivery on these commitments is expected in 2023.

Litigation

In December 2022, a statement of claim was filed in the Ontario Superior Court of Justice against AirBoss and several named officers. The applicants under the proceeding seek an order for leave to proceed under the *Securities Act* (Ontario), certifying the proceeding as a class proceeding and appointing them as representative plaintiffs. The applicants seek, among other relief, a declaration that the Company made misrepresentations contrary to the *Securities Act* (Ontario) during a period extending from November 9, 2021 to September 6, 2022, as well as unspecified damages. No legal provisions are recognized at December 31, 2022 and 2021. The Company is occasionally named as a party in various claims and legal proceedings, which arise during the normal course of its business. The Company reviews each of these claims, including the nature of the claim, the amount in dispute or claimed and the availability of insurance coverage. Although there can be no assurance that any particular claim will be resolved in the Company's favour, management does not believe that the outcome of any claim or potential claims of which it is currently aware will have a material adverse effect on the Company.

NOTE 20 POST RETIREMENT BENEFITS

The Company provides post-retirement life insurance benefits to eligible retirees (the "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 the 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 $22. This plan is unfunded, as such there is no plan asset to be disclosed. At December 31, 2022, the weighted average duration of the defined benefit obligation was 8 years (2021: 10 years).

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

December 31	**2022**	2021
Present value of unfunded obligation and liability in the Consolidated Statement of Financial Position	**408**	579
Movement in the defined benefit obligation is as follows:		
At January 1	**579**	664
Current service cost	**4**	3
Interest cost	**15**	15
Benefit payment	**(55)**	(30)
Actuarial gain	**(99)**	(76)
Foreign currency translation	**(36)**	3
	408	579

At December 31		
Amounts recognized in the Consolidated Statement of Profit (loss):		
Post-retirement benefits (recovery)/expense	**(142)**	(94)
Interest cost	**15**	15
Foreign currency translation	**(36)**	3
Recovery	**(163)**	(76)

The current service charge was included in general and administrative expense and the interest cost is included in finance costs in the consolidated statement of profit (loss).

December 31	**2022**	2021
The principal actuarial valuation assumptions used were as follows:		
Discount rate	**5.15%**	2.85%
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

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	**2022**	2021
Effect of an increase of 1%		
Post-employment benefit obligation	**(32)**	(54)
Effect of a decrease in 1%		
Post-employment benefit obligation	**38**	66
Mortality Sensitivity Analysis		
Effect of an increase of 10% on mortality rates		
Post-employment benefit obligation	**1**	2
Effect of a decrease of 10% on mortality rates		
Post-employment benefit obligation	**(2)**	(3)

Defined Contribution Plan

AirBoss of America Corp. maintains a registered retirement savings defined contribution plan for all of their employees. Total contribution and expense to this plan for 2022 were $531 (2021: $450).

ANC maintains a 401(k) plan for its employees. Total contributions and expense to this plan during 2022 were $130 (2021: $98).

Ace maintains a 401(k) plan for its employees. Total contributions and expense to this plan during 2022 were $104 (2021: $5).

AFP maintains a 401(k) defined contribution plan for its employees. Total contributions and expense to this plan during 2022 were $538 (2021: $505).

ADG USA maintains a 401(k) defined contribution plan for its employees. Total contributions and expense to this plan during 2022 were $123 (2021: $151).

ADG Canada employees are covered under various registered and unregistered defined contribution plans. Total contribution and expense to these plans for 2022 were $217 (2021: $210).

CSI maintains a 401(k) defined contribution plan for its employees. Total contribution and expense to these plans for 2022 were $87 (2021: $133).

B3 maintains a 401(k) defined contribution plan for its employees. Total contribution and expense to these plans for 2022 were $37 (2021: $45).

Multi-Employer Pension Plan

During 2022, the Company made contributions of $299 (2021: $281) to a multi-employer pension plan. At December 31, 2022, multi-employer pension plan had assets of $6,871 (2021: $5,998) and liabilities of $6,602 (2021: $6,383). The collective bargaining agreement requires that the Company contributes $0.40 for each hour worked by eligible employees during the preceding wage month.

NOTE 21 SEGMENTED INFORMATION

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

Information regarding the results of each reportable segment is included below. Inter-company amounts, which represent items purchased and sold between different segments, have been presented within the segment disclosure and are eliminated to arrive at the consolidated amounts.

For the year ended December 31	AirBoss Defense Group		Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Segment net sales	**133,160**	329,916	**236,149**	171,553	**132,512**	116,621	**–**	–	**501,821**	618,090
Inter-segment net sales	**(2,588)**	(4,565)	**(20,937)**	(18,492)	**(1,141)**	(8,175)	**–**	–	**(24,666)**	(31,232)
External net sales	**130,572**	325,351	**215,212**	153,061	**131,371**	108,446	**–**	–	**477,155**	586,858
Depreciation and amortization	**9,767**	10,405	**6,622**	4,903	**5,265**	5,330	**251**	243	**21,905**	20,881
Segment measure of profit (loss)	**(40,021)**	74,998	**19,695**	11,125	**(11,272)**	(11,229)	**(3,076)**	(16,184)	**(34,674)**	58,710
Finance costs									**(5,738)**	(4,178)
Income tax expense									**8,520)**	(7,829)
Profit (loss)									**(31,892)**	46,703
Segment assets	**177,976**	205,240	**160,154**	146,237	**97,998**	83,292	**4,638**	8,495	**440,766**	443,264
Segment liabilities	**108,076**	69,571	**39,755**	32,115	**20,619**	23,565	**75,319**	82,865	**243,769**	208,116
Capital additions	**1,515**	8,613	**6,247**	6,113	**960**	6,722	**1,490**	1,137	**10,212**	22,585

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	2022		2021	
	Net sales	**Non-current assets**	Net sales	Non-current assets
Canada	**70,248**	**59,340**	47,295	62,278
United States	**363,994**	**157,637**	497,875	153,100
Other countries	**42,913**	**–**	41,688	–
	477,155	**216,977**	586,858	215,378

Major customers

Net sales from one customer represent approximately 9% (2021: 40%) of consolidated net sales in 2022. Five customers represented 33% (2021: 56%) of consolidated net sales in 2022.

Major Products

	2022	2021
AirBoss Defense Group		
Defense	**85,931**	291,621
Industrial	**44,641**	33,730
	130,572	325,351
Rubber Solutions		
Tolling	**10,009**	8,643
Mixing	**205,203**	144,418
	215,212	153,061
Engineered Products	**131,371**	108,446
	477,155	586,858

NOTE 22 RELATED PARTIES

Related Party Transactions

During the year, the Company paid $168 (2021: $176) to companies controlled by the Chairman & CEO of the Company for use of office facilities.

Transactions with key management personnel

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

December 31	2022	2021
Salaries and other short-term benefits	**4,175**	6,297
Share-based payment expense (recovery)	**(5,313)**	8,332
	(1,138)	14,629

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 21.0% of the outstanding common shares as at December 31, 2022 (2021: 21.0%).

In March 2018, the Company provided a share purchase loan of CAD $500 to the President & COO that bears interest at 1%, maturing March 2023. In June 2019, the Company provided share purchase loans of CAD $300 to the Executive Vice President, General Counsel; and CAD $92 to the President & COO that bear interest at 2%, maturing June 2024. The loan to the Executive Vice President, General Counsel was repaid in May 2022. In April 2022 the Company loaned $1,750 to the Chief Executive Officer of ADG, secured by shares of the Company, bearing interest at 1%, maturing April 2023. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities, and maturity. All share purchase loans are full recourse and interest is due and payable semi-annually. In total, 141,178 shares of the Company having a fair value of $776 were pledged as collateral on these loans. At December 31, 2022, the loan receivable of $2,203, including accrued interest, were included in Other Assets on the consolidated statement of financial position. During the year, interest revenue of $8 (2021: $7) was received.

NOTE 23 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	2022	2021
Natural and synthetic rubber	**(8.19)**	(7.27)
Chemicals (Rubber mixing)	**(4.42)**	(3.64)
Steel	**(2.82)**	(2.55)
Carbon black	**(3.60)**	(2.45)
Silicone	**(0.83)**	(0.75)
	(19.86)	(16.66)

A portion of the Company's products are sold at prices denominated in CAD or based on prevailing CAD; most of the raw material purchases are denominated in USD and a significant portion of its operational costs and expenses are incurred in CAD. Therefore, an increase in the value of the USD to CAD decreases the net sales in USD terms realized by the Company from sales made in CAD, partially offset by lower CAD operational costs/expenses, which decreases operating margin and the cash flow available to fund operations. The net CAD 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 CAD by increasing or decreasing the proportion of borrowings denominated in CAD or forward currency contracts. The Rubber Solution segment's profit and loss is somewhat naturally hedged in that sales denominated in USD offset USD 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 dollars	**2022**	2021
Sales (1)	**(1.9)**	(1.8)
Purchases (2)	**6.1**	6.5

(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. CAD and USD 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 ($24,375 as at December 31, 2022) 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%. In February 2023, the Company entered into an interest rate swap agreement for a notional amount of $25,000, maturing in February 2025. The swap agreement calculates interest based on the difference between the floating rate of SOFR and a fixed rate of 4.31%.

During 2022, interest recovery on the swap agreement was $310 (2021: expense of $44).

At December 31, 2022, the fair value of this agreement, representing a gain of $52 (2021: $48), is included in loans and borrowings on the consolidated statement of financial position. The change in the fair value, representing a gain of $4 (2021: $105), is recorded on the consolidated statement of profit as finance costs. The Company entered into the interest rate swap agreements to fix the interest rate on a portion of its borrowings and does not hold them for trading or speculative purposes.

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

December 31	**2022**	2021
Fixed rate instruments		
Financial assets	**2,203**	709
Financial liabilities	**(14,955)**	(13,649)
Variable rate instruments		
Financial liabilities	**(128,687)**	(63,164)
Total	**(141,439)**	(76,104)

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 profit (loss) and equity by:

	Net income and equity	
	100bp increase	100bp decrease
2022		
Variable rate instruments	**(760)**	**760**
2021		
Variable rate instruments	(374)	374

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

Credit Risk

The Company held cash and cash equivalents of $18,552 at December 31, 2022 (2021: $7,131), 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 6), maturity and other relevant factors. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. Purchase limits established for certain accounts represent the maximum open balance permitted without approval from the CEO. The Company maintains reserves for potential credit losses relating to specific exposures, and any such losses to date have been within management's expectations. Net sales from one customer represent approximately 9% (2021: 40%) of consolidated net sales in 2022. Five customers represented 33% (2021: 56%) of consolidated net sales in 2022.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 $75,000 availability, upon the satisfaction of customary conditions for such features. At year end, the Company had cash of $18,552 and had drawn $130,813 against its $250,000 revolving credit facilities (2021: cash of $7,131 and had drawn $65,713).

Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, share purchase loans, trade and other payables, interest rate swap, revolving line of credit, other debt, and foreign exchange hedges. The fair values of cash and cash equivalents, trade and other receivables, share purchase loans, trade and other payables, contingent consideration, interest rate swap and foreign exchange hedges, as recorded in the consolidated statement of financial position approximate their carrying amounts due to the short-term maturities of these instruments. The fair value of the revolving line of credit and leases have been discounted using current market interest rates.

The carrying value and fair value are as follows:

December 31, 2022	**Amortized cost**	**Fair value through profit and loss**	**Total carrying amount**	**Total fair value**
Cash and cash equivalents	18,552	–	18,552	18,552
Trade and other accounts receivable	94,628	–	94,628	94,628
Interest rate swap	–	52	52	52
Share price hedge	–	223	223	223
Share purchase loans	2,203	–	2,203	2,203
Total financial assets	115,383	275	115,658	115,658
Trade and other payables	84,981	–	84,981	84,981
Foreign exchange hedge	–	258	258	258
Loans and borrowings	143,694	–	143,694	143,882
Contingent consideration	–	8,422	8,422	8,422
Total financial liabilities	228,675	8,680	237,355	237,543

December 31, 2021	Amortized cost	Fair value through profit and loss	Total carrying amount	Total fair value
Cash and cash equivalents	7,131	–	7,131	7,131
Trade and other accounts receivable	82,440	–	82,440	82,440
Interest rate swap	–	48	48	48
Share purchase loans	709	–	709	709
Total financial assets	90,280	48	90,328	90,328
Trade and other payables	102,973	–	102,973	102,973
Foreign exchange hedge	–	53	53	53
Loans and borrowings	80,611	–	80,611	83,761
Contingent consideration	–	8,719	8,719	8,719
Total financial liabilities	183,584	8,772	192,356	195,506

The fair values of the share purchase loans and revolving line of credit have been based on market interest rate (level 2) in 2022 and 2021. The Company has not disclosed the fair values for financial instruments (trade and other receivables 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 2022 and 2021. There were no transfers between levels of the fair value hierarchy in 2022 and 2021.

Capital Management

The Company has defined its capital as follows:

December 31	2022	2021
Loans and borrowings	**143,642**	80,563
less: leases included in loans and borrowings	**(15,007)**	(17,399)
less: cash and cash equivalents	**(18,552)**	(7,131)
Net debt	**110,083**	56,033
Shareholders' equity	**196,997**	235,148
	307,080	291,181

Net Debt measures the financial indebtedness of the Company assuming that all cash on hand is used to repay a portion of the outstanding debt.

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 CAD and USD.

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 $250,000 committed revolving line of credit that provides liquidity and flexibility when capital markets are restricted.

Key management currently own 21.0% of the outstanding shares of the Company. Each Director is required to hold common shares and/or DSUs valued, at the time(s) of purchase or issuance, as applicable, at three times the annual base cash retainer entitlement. Directors have a period of five years from the date of their election to the Board to achieve the minimum shareholding requirement. 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 December 2022, the Company renewed its normal course issuer bid ("NCIB") to purchase up to 500,000 of its common shares, representing approximately 2.9% of the Company's public float. The Company purchased nil shares (2021: nil) under its NCIB in 2022.

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

Corporate Information

Board of Directors

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

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

Stephen Ryan (2)
Lead Director
Washington, D.C.

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

Anita Antenucci
Upperville, Virginia

Alan J. D. Watson (1) (2) (3)
Sydney, Australia

David Camilleri (1)
Waterloo, Ontario

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

Corporate Information

Solicitors

Davies Ward Phillips & Vineberg LLP
Toronto, Ontario

Auditors

KPMG LLP
Vaughan, Ontario

Transfer Agent And Registrar

Computershare Investor Services, Inc.
Toronto, Ontario

Stock Symbol - Toronto Stock Exchange: BOS
Stock Symbol - OTCQX: ABSSF
Website Address: www.airboss.com
Email Address: info@airboss.com

Our Annual Meeting is Wednesday, May 10, 2023
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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