



A STRATEGIC EVOLUTION

2023 ANNUAL REPORT



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AIRBOSS 2023 AT A GLANCE:

A YEAR OF MEASURED PROGRESS AND STRATEGIC ADAPTATION

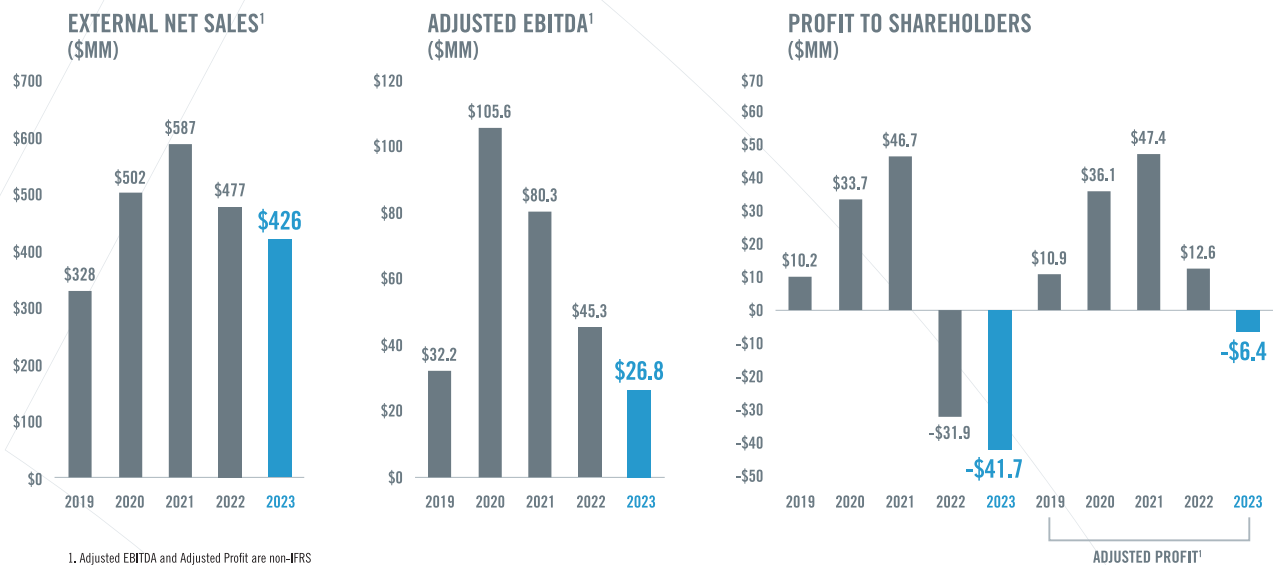
2023 HAS BEEN A YEAR MARKED BY MEASURED PROGRESS AND STRATEGIC ADAPTATION FOR AIRBOSS. AMIDST A BACKDROP OF GLOBAL CHALLENGES, OUR COMMITMENT TO OPERATIONAL EXCELLENCE AND STRATEGIC FORESIGHT HAS ALLOWED US TO NAVIGATE THESE MARKET ADVERSITIES. THIS YEAR, WHILE NOT WITHOUT ITS DIFFICULTIES, SHOWCASED OUR RESILIENCE AND CAPABILITY TO ACHIEVE KEY MILESTONES WITHIN OUR NEW REPORTING SEGMENTS AIRBOSS RUBBER SOLUTIONS (ARS) AND AIRBOSS MANUFACTURED PRODUCTS (AMP).

2023 STRATEGIC INITIATIVES AND ACHIEVEMENTS

AIRBOSS RUBBER SOLUTIONS

DESPITE GENERAL ECONOMIC HEADWINDS THE RUBBER SOLUTIONS SEGMENT HAS EXEMPLIFIED EXCELLENCE, ACHIEVING STRONG PERFORMANCE THROUGH ENHANCED OPERATIONAL EFFICIENCIES, THE SUCCESSFUL INTEGRATION OF STRATEGIC ACQUISITIONS, AND AN EXPANDED PRODUCT PORTFOLIO. NOTABLE INITIATIVES INCLUDED:

- ▶ **EXPANSION OF PRODUCT LINES:**
The introduction of innovative rubber compounds has catered to the evolving needs of our diverse customer base, showcasing our commitment to market-driven innovation.
- ▶ **STRATEGIC ACQUISITIONS:**
The successful integration of acquired entities has not only strengthened our market position but also broadened our technological horizons and capabilities.
- ▶ **OPERATIONAL EFFICIENCY:**
We've leveraged cutting-edge manufacturing technologies and processes to enhance production efficiency, reduce costs and emphasize operational excellence.



1. 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.

AIRBOSS MANUFACTURED PRODUCTS

AMP HAS SOLIDIFIED ITS STANDING AS A CRUCIAL SUPPLIER TO AUTOMOTIVE, NON AUTOMOTIVE, MILITARY AND FIRST RESPONDER MARKETS WITH NOTEWORTHY CONTRACT WINS AND THE DEVELOPMENT OF INNOVATIVE PRODUCTS.



CONTRACT WINS:

Our ability to secure new contracts for the supply of essential CBRN equipment underscores our dedication to supporting defense communities.



PRODUCT INNOVATION:

The ongoing development of innovative defense products aimed at enhancing the safety and efficiency of military and first responder personnel highlights our focus on continuous improvement and innovation.



MARKET EXPANSION:

We've diversified our market reach, reducing our historical reliance on the automotive sector by entering new industries and strengthening existing partnerships through strategic collaborations.



PRODUCT DEVELOPMENT:

Our commitment to leveraging R&D capabilities has resulted in the launch of new products designed to meet the specific needs of clients across various industries, further evidencing our innovation-driven approach.



OPERATIONAL ENHANCEMENTS:

Investment in advanced manufacturing technologies has significantly uplifted our product quality and manufacturing efficiency, reaffirming our commitment to operational excellence through automation.



MESSAGE TO SHAREHOLDERS

A YEAR OF STRATEGIC EXECUTION AND RESILIENCE

DEAR SHAREHOLDERS,

AS WE CONCLUDE A CHALLENGING YEAR, WE REFLECT ON THE RESILIENCE AND UNWAVERING COMMITMENT OF OUR TEAM ACROSS NORTH AMERICA. 2023 STOOD AS A TESTAMENT TO OUR STRENGTH AND AGILITY, FACING COMPLEX CHALLENGES WHILE CAPTURING KEY OPPORTUNITIES FOR GROWTH AND INNOVATION.

REFLECTING ON 2023

NAVIGATING THROUGH CHALLENGES:

The global landscape in 2023 remained dynamic, faced with continuous supply chain disruptions, geopolitical tensions, and economic volatilities. Despite these adversities, AirBoss showcased agility and strategic foresight, ensuring operational continuity, upholding our commitment to operational excellence, and remaining steadfast in our mission to serve our customers with creative solutions.

ACHIEVING STRATEGIC MILESTONES:

In AirBoss Rubber Solutions, our commitment to technical innovation and market expansion drove us to accelerate the onboarding of non-tolling customers. AirBoss Manufactured Products solidified its reputation as a trusted partner for military and first responder communities, securing important contracts in our traditional product lines while driving operational efficiencies through the integration of new equipment and process technology.



FINANCIAL HIGHLIGHTS

The strategic initiatives embarked upon in 2023 translated into a notable swing in cash from operating activities, moving from a cash consumption of \$30 million in 2022 to a cash generation of \$40 million in 2023. This significant improvement in cash generation was driven by our ongoing emphasis on sound financial management and a tireless drive towards lean manufacturing, creating a solid foundation for future growth.

LOOKING AHEAD: STRATEGIC PRIORITIES AND VISION 2024 AND BEYOND

Commitment to Innovation and Growth: As we look to the future, our strategic focus is clear - to drive growth through relentless innovation with an even stronger emphasis on historical core competencies. Our dedication to advancing our technological capabilities remains, supporting AirBoss' continued strength in our industry sectors.

BUILDING SHAREHOLDER VALUE:

Aligned with our strategic vision, our priority remains to enhance long-term value for our shareholders. We are dedicated to effectively managing our resources, seizing strategic growth opportunities, and maintaining disciplined capital allocation.

IN CLOSING

Despite the economic headwinds our achievements in 2023 are a collective accomplishment, made possible by the hard work and dedication of our employees. We extend our deepest gratitude to our customers, partners, and shareholders for your continued trust and support. Looking forward, we are excited about the prospects of continued growth, innovation, and shared success.


Thank you for being a part of our journey.

Chris Bitsakakis
President and Co-CEO

P.G. Schoch
Chairman and Co-CEO



FUTURE OUTLOOK FOR **AIRBOSS RUBBER SOLUTIONS**



AS WE MOVE FORWARD, WE BELIEVE ARS IS POISED FOR SIGNIFICANT TRANSFORMATION AND GROWTH, FOCUSING ON STRATEGIC INITIATIVES THAT PROMISE TO ENHANCE MARKET PRESENCE AND TECHNOLOGICAL CAPABILITIES.

▶ **MARKET SHARE EXPANSION**

ARS is working diligently to increase its market share within the North American rubber compounding market. The strategic focus will be on high-value polymer systems and the expansion of our share of wallet at existing customers, while adding new high value customers to our portfolio.

▶ **SPECIALTY POLYMER MARKET ENTRY AND EXPANSION**

In 2024, ARS is planning a strategic expansion into new specialty polymer products that represent a significant growth opportunity. This move is expected to drive new revenue opportunities from previously untapped markets.

▶ **CONTINUED FOCUS ON HIGH-VALUE HIGHLY ENGINEERED COMPOUNDS**

The commitment to prioritizing high-value polymer systems will continue, with ARS expanding its market share in end markets that require more advanced technological solutions. This strategy was accelerated with the acquisition of Ace Elastomer and is aimed at driving increased value capture and ensuring ARS remains at the technological forefront of the custom rubber compounding industry.

FUTURE OUTLOOK FOR **AIRBOSS** **MANUFACTURED PRODUCTS**

AMP IS SET ON A PATH OF FOCUSED GROWTH AND INNOVATION, WITH STRATEGIC PRIORITIES AIMED AT ENHANCING ITS STRENGTH IN SURVIVABILITY SOLUTIONS AND ENGINEERED RUBBER PRODUCTS.

- ▶ **FOCUSED GROWTH AND ACCELERATED EXPANSION:**
AMP plans to continue its trajectory of focused growth, leveraging industry partnerships and customer relationships to develop innovative solutions and capture key opportunities.
- ▶ **INNOVATIVE PRODUCT DEVELOPMENT:**
Priority will be given to the development of new CBRN and other core protective solutions, aiming to address the evolving needs of military and first responder communities worldwide.
- ▶ **GEOGRAPHIC AND MARKET EXPANSION:**
The segment aims to enhance its presence in key markets through strategic initiatives, including geographic expansion and the introduction of new products to meet customer demands.
- ▶ **ENHANCED MARKET PENETRATION:**
The segment plans to continue its expansion of core products into non-automotive markets, capturing growth opportunities in industries such as Rail, Off-Highway, and Defense/Aerospace.
- ▶ **INNOVATION IN AUTOMOTIVE SECTOR:**
Taking advantage of the EV transition, the segment remains committed to focusing on innovation and the development of new products that address the evolving needs of EVs and ICE vehicles alike.
- ▶ **STRATEGIC ACQUISITIONS FOR GROWTH:**
AMP will pursue acquisitions that complement its strategic goals, offering new technologies, market access, and synergies to strengthen its competitive position and drive long-term growth of AMP core products.



WE BELIEVE THAT BOTH ARS AND AMP ARE POISED FOR GROWTH, WITH A CLEAR STRATEGIC FOCUS ON INNOVATION, MARKET EXPANSION, AND TECHNOLOGICAL ADVANCEMENTS. THESE INITIATIVES ARE DESIGNED TO ENHANCE LONG-TERM VALUE FOR SHAREHOLDERS, CAPITALIZE ON NEW MARKET OPPORTUNITIES, AND ENSURE AIRBOSS'S LEADERSHIP IN THE KEY INDUSTRIES IT SERVES.



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 6, 2024 and should be read in conjunction with the Consolidated Financial Statements and Notes for the year ended December 31, 2023 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.sedarplus.com and on the Company's website at www.airboss.com.

FORWARD-LOOKING INFORMATION

Certain statements contained or incorporated by reference herein, including those that express management's expectations or estimates of future developments or AirBoss' future performance, constitute "forward-looking information" or "forward-looking statements" within the meaning of applicable securities laws, and can generally be identified by words such as "will", "may", "could" "expects", "believes", "anticipates", "forecasts", "plans", "intends", "should" 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; AirBoss' ability to successfully develop and execute effective business strategies, including the implementation of strategic plans; 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 and ability to satisfy the covenants set forth in such financing arrangements; environmental damage and non-compliance with environmental laws and regulations; impact of global health situations; potential product liability and warranty claims and equipment malfunction. There is increased uncertainty associated with future operating assumptions and expectations as compared to prior periods. 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.sedarplus.com.

OVERALL PERFORMANCE**Recent Highlights****(In US dollars except as otherwise noted)**

- Generated \$40.9 million cash from operations during 2023 compared to consuming \$30.8 million in 2022;
- 2023 Adjusted EBITDA¹ of \$26.8 million on Adjusted Profit¹ of \$(6.4) million and a loss of \$41.7 million;
- Finished 2023 with a Net Debt to Adjusted EBITDA ratio¹ of 3.30x; and
- Declared a quarterly dividend of C\$0.07 per common share.

Selected Financial Information*In thousands of US dollars, except share data*

For years ended December 31	2023	2022	2021
Financial results:			
Net sales	426,025	477,155	586,858
Profit (loss)	(41,749)	(31,892)	46,703
Adjusted Profit ¹	(6,424)	12,558	47,374
Earnings (loss) per share (US\$)			
– Basic	(1.54)	(1.18)	1.73
– Diluted	(1.54)	(1.18)	1.65
Adjusted earnings per share ¹ (US\$)			
– Basic	(0.24)	0.46	1.76
– Diluted	(0.24)	0.45	1.67
EBITDA ¹	(11,177)	(12,769)	79,591
Adjusted EBITDA ¹	26,758	45,336	80,341
Net cash from (used in) operating activities	40,917	(30,775)	2,023
Free cash flow ¹	32,453	(40,964)	(15,961)
Dividends declared per share (CAD\$)	0.37	0.40	0.37
Capital additions	9,863	10,212	22,585
Financial position:			
Total assets	356,656	440,766	443,264
Debt ²	131,092	143,642	80,563
Net Debt ¹	88,213	110,083	56,033
Shareholders' equity	148,857	196,997	235,148
Outstanding shares*	27,130,556	27,092,041	26,993,181
*27,130,556 at March 6, 2024			

¹See Non-IFRS Financial Measures²Debt includes \$13,890 of lease liabilities (2022: \$15,007; 2021: \$17,399)

MD&A (cont'd)

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 and amortization. Adjusted EBITDA is defined as EBITDA excluding impairment costs, acquisition costs, and non-recurring costs. A reconciliation of profit (loss) to EBITDA and Adjusted EBITDA is below.

<i>In thousands of US dollars</i>	2023	2022	2021
EBITDA:			
Profit (loss)	(41,749)	(31,892)	46,703
Finance costs	5,233	5,738	4,178
Depreciation and amortization	22,345	21,905	20,881
Income tax expense (recovery)	2,994	(8,520)	7,829
EBITDA	(11,177)	(12,769)	79,591
Professional fees related to AEP negotiations	152	1,104	445
Write-down of inventory	8,031	57,001	–
Restructuring costs	3,104	–	–
Impairment of intangible assets	26,648	–	–
Prospectus fees	–	–	305
Adjusted EBITDA	26,758	45,336	80,341

In 2023, the Company underwent a series of cost saving initiatives and staff reductions. Costs related to these restructuring activities are included in Other Costs on the Statement of Profit and Loss.

In 2022, the Company negotiated improved arrangements with automotive business' key suppliers and customers to improve profitability. Professional fees related to these activities are included in General & Administrative Costs on the Statement of Profit and Loss.

In 2021, the Company filed a base shelf prospectus. Costs related to preparing the Company's documentation to be eligible to file a prospectus are included in General & Administrative Costs in the Statement of Profit and Loss.

Adjusted profit is a non-IFRS measure defined as profit (loss) before impairment costs, 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 (loss) to Adjusted profit and Adjusted earnings per share is below.

<i>In thousands of US dollars</i>	2023	2022	2021
Adjusted profit:			
Profit (loss)	(41,749)	(31,892)	46,703
Professional fees related to AEP negotiations (after tax)	116	844	445
Write-down of inventory (after tax)	6,264	43,606	–
Restructuring costs (after tax)	2,297	–	–
Impairment of intangible assets (after tax)	26,648	–	–
Prospectus fees (after tax)	–	–	226
Adjusted profit	(6,424)	12,558	47,374
Basic weighted average number of shares outstanding	27,118	27,071	26,970
Diluted weighted average number of shares outstanding	27,118	28,109	28,298
Adjusted earnings per share (in US dollars):			
Basic	(0.24)	0.46	1.76
Diluted	(0.24)	0.45	1.67

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.

<i>In thousands of US dollars</i>	2023	2022	2021
Net debt:			
Loans and borrowings - current	2,437	2,286	2,356
Loans and borrowings - non-current	128,655	141,356	78,207
Leases included in loans and borrowings	(13,890)	(15,007)	(17,399)
Cash and cash equivalent	(28,989)	(18,552)	(7,131)
Net debt	88,213	110,083	56,033

The Company has a Net Debt to trailing twelve-month Adjusted EBITDA ratio of 3.30x (2022: 2.43x, 2021: 0.70x)

AirBoss of America Corp.

MD&A (cont'd)

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.

<i>In thousands of US dollars</i>	2023	2022	2021
Free cash flow:			
Net cash provided by (used in) operating activities	40,917	(30,775)	2,023
Acquisition of property, plant and equipment	(7,256)	(8,800)	(16,912)
Acquisition of intangible assets	(1,249)	(1,392)	(1,081)
Proceeds from disposition	41	3	9
Free cash flow	32,453	(40,964)	(15,961)
Basic weighted average number of shares outstanding	27,118	27,071	26,970
Diluted weighted average number of shares outstanding	27,439	27,071	26,970
Free cash flow per share (in US dollars):			
Basic	1.20	(1.51)	(0.59)
Diluted	1.18	(1.51)	(0.59)

OVERVIEW

2023 was a challenging year for AirBoss as economic headwinds impacted each segment to varying degrees, and the Company continued to navigate significant and extensive obstacles related to labor, supply chain and logistics challenges. The Company focused on managing costs and risk mitigation plans in response to these challenges, which were particularly pronounced in the fourth quarter of 2023 ("Q4 2023"), and undertook a strategic review of each of its business units. This review has resulted in its new strategic transition, including a shift in reportable segments commencing with results for Q4 2023 and year ended December 31, 2023. AirBoss now reports results under two segments: (1) AirBoss Rubber Solutions ("ARS"), and (2) AirBoss Manufactured Products ("AMP"). The ARS segment consists of the former rubber solutions segment and the rubber compounding operations at Acton Vale, Quebec (previously included in the AirBoss Defense Group segment). The new AMP segment consists of AirBoss Engineered Products, formerly a standalone segment, and AirBoss Defense Group, formerly a standalone segment (other than the rubber compounding operations at Acton Vale, Quebec).

Both ARS and AMP experienced residual softness in Q4 2023. The rubber molded products operations at AMP were impacted by the tail end of the union strike related to the OEMs which was settled in the quarter. The ability to recover in volumes in 2024 for each segment will remain subject to the ongoing challenges related to continued inflation pressure and the ongoing global geopolitical challenges, and successful conversion of key opportunities.

Although ARS experienced some retraction in most business lines compared to 2022, which was a record year from both a sales and EBITDA perspective, 2023 remained a solid year with respect to sales and EBITDA. Despite strong performance during the earlier part of 2023, there was pronounced softness experienced at the end of Q4 2023 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.

AMP experienced strong traction in the rubber molded product lines despite challenges towards the latter part of the year due to labor disruptions with the OEMs, while the defense product lines experienced softness across the product portfolio throughout the entire year. Management continued its focus on operational improvements including managing costs and a commitment to drive efficiencies and best-in-class automation, as well as diversification of its product lines into adjacent sectors. In addition, the defense business 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 2023. Further, although West African Husky order has been completed, execution on the balance of the previously announced awards for Husky 2G vehicles has been delayed further due to ongoing delays in funding, creating a lack of certainty to the scope, timing and the terms and conditions of these awards which cannot reasonably be determined.

The Company's long-term priorities consist of the following:

1. Growing the core Rubber Solutions segment by emphasizing rubber compounding as the core driver for sustainable growth and productivity, focusing on innovation in custom rubber compounding while aiming to expand market share through organic and inorganic means, while striving to achieve enhanced diversification by a broadening of product breadth through technological advancements and investments in specialty compound niches;
2. Manufactured Products growth strategy will be focused on diversifying and expanding its range of rubber molded products while simultaneously narrowing the range of defense products through a renewed focus on core competencies; and
3. Undertaking a strategic review of all product lines currently manufactured and sold by the Company in its Manufactured Products segment while targeting additional acquisition opportunities with a focus on adding new compounds and products, technical capabilities, and geographic reach into selected North American and international markets.

AirBoss continues to focus on these long-term priorities while investing in core areas of the business to expand a solid foundation that will support long-term growth.

MD&A (cont'd)

RESULTS OF OPERATIONS – For year ended December 31, 2023 compared to 2022

NET SALES

Consolidated net sales for the year ended December 31, 2023 decreased by 10.7% to \$426,025, compared with 2022 primarily due to decreased sales at Rubber Solutions across the majority of sectors and Manufactured Products' delivery of nitrile gloves to the U.S. Department for Health and Human Services ("HHS") in the prior year, partially offset by improved performance in other produce lines in that segment.

<i>In thousands of US dollars</i>		Rubber Solutions	Manufactured Products	Inter-segment net sales	Total
Net Sales	2023	248,395	202,290	(24,660)	426,025
	2022	283,181	218,475	(24,501)	477,155
Increase (decrease) \$		(34,786)	(16,185)	(159)	(51,130)
Increase (decrease) %		(12.3)	(7.4)	0.6	(10.7)

Rubber Solutions

Net sales in the Rubber Solutions segment decreased by 12.3%, to \$248,395 in 2023, from \$283,181 in 2022. This was due to softness across most sectors driven by economic headwinds. Volume was down 17.5% with decreases across the majority of sectors given softness in many customer sectors.

Tolling volumes for the year ended December 31, 2023 decreased by 59.6%, compared with 2022. Non-tolling volumes for the year ended December 31, 2023 decreased by 7.4% compared with 2022. The overall decrease in volume was across many sectors with strong increases in industrial, conveyor belt applications and specialty applications.

Manufactured Products

Net sales in the Manufactured Products segment decreased by 7.4%, to \$202,290 in 2023, from \$218,475 in 2022. This is primarily due to a decrease in the defense products lines from the delivery of nitrile gloves to HHS in the part of the previous year partly offset by an increase in the rubber molded products lines due to increased volume.

GROSS PROFIT

For the year ended December 31, 2023, consolidated gross profit was up by \$34,279 to \$58,410. Gross profit as a percentage of net sales increased to 13.7% from 5.1% in 2022. The increase in margin percentage was driven by a \$57.0 million non-cash write-down related to nitrile glove inventory in 2022 and improvements at the Rubber Solutions segment in addition to cost improvements that took place in the latter part of 2023 in each segment, partially offset by an \$8.0 million non-cash write-down related to nitrile glove inventory in 2023.

<i>In thousands of US dollars</i>		Rubber Solutions	Manufactured Products	Total
Gross Profit	2023	34,947	23,463	58,410
	2022	36,645	(12,514)	24,131
Increase (decrease) \$		(1,698)	35,977	34,279
% net of sales	2023	14.1	11.6	13.7
	2022	12.9	(5.7)	5.1

Rubber Solutions

For the year ended December 31, 2023, gross profit for Rubber Solutions was \$34,947 (14.1% of net sales), down \$1,698 compared to \$36,645 (12.9% of net sales) in 2022. The decrease was primarily as a result of decreased tolling and non-tolling volumes compared to the same period in 2022 and partially offset by managing controllable overhead costs.

Manufactured Products

Gross profit for the year ended December 31, 2023 in the Manufactured Products segment was \$23,463, up \$35,977 compared with \$(12,514) in 2022. The increase was primarily a result of a \$57.0 million non-cash write-down related to nitrile glove inventory in 2022, in addition to increased volume and improved arrangements in 2023 within the rubber molded products lines with key suppliers and customers. In addition, there was a continued focus on controllable operational cost containment and managing overhead costs, partially offset by an \$8.0 million non-cash write-down related to nitrile glove inventory in 2023.

OPERATING EXPENSES

Consolidated operating expenses for the year ended December 31, 2023 increased by \$33,127 to \$91,932 compared with 2022. The increase was primarily due to a \$26,648 goodwill impairment charge, \$3,104 of restructuring costs and increased stock-based compensation expense due to cost recoveries in 2022, offset by a foreign exchange gain (compared to a loss in 2022) and lower administrative costs. As a percentage of net sales, operating expenses for the year ended December 31, 2023 increased to 21.6% from 12.3% in 2022.

<i>In thousands of US dollars</i>		Rubber Solutions	Manufactured Products	Corporate	Total
Operating Expenses	2023	18,621	60,507	12,804	91,932
	2022	15,192	40,537	3,076	58,805
Increase (decrease) \$		3,429	19,970	9,728	33,127
% net of sales	2023	7.5	29.9	N/A	21.6
	2022	5.4	18.6	N/A	12.3

AirBoss of America Corp.

MD&A (cont'd)

Rubber Solutions

Rubber Solutions' operating expenses for the year ended December 31, 2023 increased by 22.6%, to \$18,621, compared with \$15,192 in 2022. The increase was primarily due to a foreign exchange loss compared to a gain in the comparative period, restructuring costs recorded in 2023, and higher administrative costs in 2023.

Manufactured Products

Manufactured Products' operating expenses for the year ended December 31, 2023 increased by 49.3% to \$60,507. The increase was due to a \$26,648 goodwill impairment charge and restructuring costs recorded in 2023 related to defense operations, partially offset by lower administrative and selling costs.

Unallocated Corporate Costs

Unallocated corporate costs for the year ended December 31, 2023 increased by \$9,728 from 2022. The increase was primarily due to cost recoveries from stock-based compensation in 2022, higher legal costs in 2023, and restructuring costs recorded in 2023, partially offset by foreign exchange gain compared to a loss in the comparative period.

FINANCE COST

Finance costs in 2023 were \$5,233 (2022: \$5,738). The decrease was primarily due to the reduction of an earn out liability payable to former owners of an acquired business and gains on the interest rate swaps, partially offset by increased borrowing costs due to higher average borrowings and higher interest rates under the Company's credit facility.

INCOME TAX EXPENSE

For the year ended December 31, 2023, the Company recorded an income tax expense of \$2,994 (2022: recovery of \$8,520) or an effective income tax rate of (7.7)% (2022: 21.1%). The effective tax rate changed primarily due to the derecognition of temporary differences recognized in prior years.

<i>In thousands of US dollars</i>	Tax expense/(recovery)		Rate	
	2023	2022	2023	2022
Expected statutory rate	(10,272)	(10,709)	26.50%	26.50%
Foreign rate differential	1,436	2,137	(3.71%)	(5.29%)
Effect of permanent differences	(225)	225	0.58%	(0.56%)
Change in tax rates and new legislation	—	259	0.00%	(0.64%)
Filing differences	5	(309)	(0.01%)	0.76%
Deductible temporary differences not recognized	12,051	(14)	(31.10%)	0.03%
Other	(1)	(109)	0.00%	0.27%
Effective tax rate	2,994	(8,520)	(7.74%)	21.07%

PROFIT (LOSS) AND EARNINGS (LOSS) PER SHARE

Net loss in 2023 amounted to \$41,749, compared with a loss of \$31,892 in 2022. The basic and fully diluted net loss per share was \$1.54 (2022: \$1.18). The increased loss was due to a \$26.6 million goodwill and inventory impairment charges in the current year, and lower gross margin (excluding the inventory impairment charges), partially offset by a \$57.0 million inventory write-down in 2022.

QUARTERLY INFORMATION

<i>In thousands of US dollars</i>	Quarter Ended	Net Sales	Profit (loss)	Earnings (loss) per share	
				Basic	Diluted
2023					
	December 31, 2023	92,696	(35,958)	(1.33)	(1.33)
	September 30, 2023	102,195	(4,633)	(0.17)	(0.17)
	June 30, 2023	114,058	(2,613)	(0.10)	(0.10)
	March 31, 2023	117,076	1,455	0.05	0.05
2022					
	December 31, 2022	117,453	11,997	0.44	0.43
	September 30, 2022	104,682	(55,957)	(2.07)	(2.07)
	June 30, 2022	110,547	2,492	0.09	0.09
	March 31, 2022	144,473	9,576	0.35	0.34

MD&A (cont'd)

Fourth Quarter 2023 Results

NET SALES

Consolidated net sales for Q4 2023 decreased by 21.1% to \$92,696, from \$117,453 in Q4 2022, with decreases at both Rubber Solutions and Manufactured Products for the reasons outlined below.

Rubber Solutions

Net sales for Q4 2023 in the Rubber Solutions segment decreased by 21.1% to \$54,464, from \$68,990 in Q4 2022. The decrease in net sales for Q4 2023 was primarily due to softness across most sectors. Volume was down 17.5% with decreases across the majority of sectors given softness in many customer sectors. Tolling volume was down 63.0%, while non-tolling volume was down 9.9% 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.

Manufactured Products

Manufactured Products net sales for Q4 2023 decreased by 19.9% to \$44,029 compared with Q4 2022. The decrease is a result of lower volumes in the defense product lines and across the rubber molded product lines, in particular the muffler hangers, bushings, and spring insulator product lines.

GROSS PROFIT

Consolidated gross profit for Q4 2023 decreased to \$5,122 (5.5% of net sales) from \$24,767 (21.1% of net sales) in Q4 2022, due to decreases in Manufactured Products' defense product lines and rubber molded product lines.

Rubber Solutions

Gross profit at Rubber Solutions for Q4 2023 was \$7,845 (14.4% of net sales), compared with \$7,699 (11.2% of net sales) in Q4 2022. The increase in gross profit was principally due to product mix, managing overhead costs offset by a reduction in volume.

Manufactured Products

Gross profit at Manufactured Products for Q4 2023 decreased by \$19,791 to a loss of \$2,723 compared with income of \$17,068 in Q4 2022. The decrease was primarily a result of an \$8.0 million non-cash write-down related to nitrile glove inventory and retroactive pricing from improved arrangements with key suppliers and customers recognized in comparable period in the prior year and lower volumes in the defense product lines and across the rubber molded product lines, partially offset by operational cost improvements in the segment.

OPERATING EXPENSES

Consolidated operating expenses for Q4 2023 increased by \$24,752, compared with Q4 2022. The increase was primarily due to the \$26,648 goodwill impairment charge note above and higher stock-based compensation costs, partially offset by lower administration costs.

INCOME TAX EXPENSE

Tax expense for Q4 2023 increased by \$8,275 compared to Q4 2022. Income tax expense increased due to the derecognition of temporary differences recognized in prior years.

REPORTING SEGMENTS UPDATE

On December 31, 2023, the Company realigned the organizational and governance structures of its businesses to focus on rubber compounding as a key product driver for sustainable growth and productivity. Such realignment gave rise to changes in how the Company presents information for financial reporting and management decision-making purposes and resulted in a change in the Company's reporting segments. The Company's operating segments are organized into the following reportable segments:

- ARS - Includes manufacturing and distribution of rubber compounds and distribution of rubber compounding related chemicals.
- AMP - Includes the manufacture and distribution of anti-noise, vibration and harshness dampening parts, and personal protection and safety products, primarily for CBRN-E threats.
- Unallocated Corporate Costs - Includes corporate activities and certain unallocated costs.

ARS consists of AirBoss' custom rubber compounding operations in Kitchener, Ontario, Rock Hill, South Carolina, Scotland Neck, North Carolina, plus the Company's rubber compounding business in Acton Vale, Quebec (formerly part of the AirBoss Defense Group Segment). AMP consists of the Company's rubber molded product operations in Auburn Hills, Michigan and the Company's defense businesses in Jessup, Maryland, Acton Vale, Quebec, Rochester, New York and Charleston, South Carolina.

AirBoss of America Corp.

MD&A (cont'd)

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

Three-months ended March 31	Rubber Solutions		Manufactured Products		Unallocated Corporate costs		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
<i>In thousands of US dollars</i>								
Segment net sales	67,556	69,483	57,399	81,924	–	–	124,955	151,407
Inter-segment net sales	(6,969)	(6,395)	(910)	(539)	–	–	(7,879)	(6,934)
External net sales	60,587	63,088	56,489	81,385	–	–	117,076	144,473
Depreciation and amortization	1,980	2,019	3,495	3,417	62	61	5,537	5,497
Segment measure of profit (loss)	4,067	5,027	3,715	9,801	(3,151)	(630)	4,631	14,198
Finance costs							(2,729)	(952)
Income tax expense							(447)	(3,670)
Net income							1,455	9,576
Segment assets	188,152	182,981	241,818	306,380	6,917	9,397	436,887	498,758
Segment liabilities	42,649	42,491	126,606	124,477	70,868	89,210	240,123	256,178
Capital additions	634	933	211	930	260	278	1,105	2,141

Three-months ended June 30	Rubber Solutions		Manufactured Products		Unallocated Corporate costs		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
<i>In thousands of US dollars</i>								
Segment net sales	67,916	75,491	52,615	40,855	–	–	120,531	116,346
Inter-segment net sales	(6,250)	(5,799)	(223)	–	–	–	(6,473)	(5,799)
External net sales	61,666	69,692	52,392	40,855	–	–	114,058	110,547
Depreciation and amortization	2,101	2,017	3,571	3,412	62	63	5,734	5,492
Segment measure of profit (loss)	5,191	7,446	(2,282)	(4,664)	(3,476)	2,186	(567)	4,968
Finance costs							(2,613)	(1,533)
Income tax expense							567	(943)
Net income							(2,613)	2,492
Segment assets	175,487	192,157	230,350	260,920	8,207	9,344	414,044	462,421
Segment liabilities	41,051	44,755	118,413	82,190	62,067	92,040	221,531	218,985
Capital additions	999	1,385	1,053	517	358	253	2,410	2,155

2023

MD&A (cont'd)

Three-months ended September 30	Rubber Solutions		Manufactured Products		Unallocated Corporate costs		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
<i>In thousands of US dollars</i>								
Segment net sales	58,459	69,216	48,247	40,729	–	–	106,706	109,945
Inter-segment net sales	(4,371)	(5,200)	(140)	(63)	–	–	(4,511)	(5,263)
External net sales	54,088	64,016	48,107	40,666	–	–	102,195	104,682
Depreciation and amortization	2,023	1,992	3,561	3,357	61	63	5,645	5,412
Segment measure of profit (loss)	3,887	5,739	(1,062)	(64,883)	(3,980)	(2,662)	(1,155)	(61,806)
Finance costs							(2,637)	(1,282)
Income tax expense							(841)	7,131
Net income							(4,633)	(55,957)
Segment assets	166,205	208,531	229,903	211,633	5,779	2,159	401,887	422,323
Segment liabilities	37,423	57,852	117,767	87,939	60,123	90,586	215,313	236,377
Capital additions	1,036	1,890	481	231	697	566	2,214	2,687

Three-months ended December 31	Rubber Solutions		Manufactured Products		Unallocated Corporate costs		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
<i>In thousands of US dollars</i>								
Segment net sales	54,464	68,991	44,029	54,967	–	–	98,493	123,958
Inter-segment net sales	(4,753)	(5,934)	(1,044)	(571)	–	–	(5,797)	(6,505)
External net sales	49,711	63,057	42,985	54,396	–	–	92,696	117,453
Depreciation and amortization	2,142	2,054	3,226	3,386	61	64	5,429	5,504
Segment measure of profit (loss)	3,181	3,242	(37,415)	6,694	(2,197)	(1,970)	(36,431)	7,966
Finance costs							2,746	(1,971)
Income tax expense							(2,273)	6,002
Net income							(35,958)	11,997
Segment assets	174,745	200,339	179,695	235,789	2,216	4,638	356,656	440,766
Segment liabilities	37,924	46,776	107,979	121,674	61,896	75,319	207,799	243,769
Capital additions	2,652	2,558	1,452	278	30	393	4,134	3,229

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its 2024 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 (2022: \$250,000). As at December 31, 2023, \$119,100 was drawn against the credit facility.

For the year ended December 31, 2023, \$40,917 of cash was provided by operations (2022: \$30,775 cash used), \$8,464 was used for investing activities (2022: \$10,189) and \$22,196 was used by financing activities (2022: \$52,202 cash provided). Cash and cash equivalents increased by \$10,437 from \$18,552 to \$28,989, adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

For the year ended December 31, 2023, cash provided by operating activities increased by \$71,692 compared to 2022. The increase was due to a \$85,183 increase in cash provided by net working capital, a \$9,857 decrease in profit and a 4,349 decrease in tax payments, partially offset by a 2,761 decrease in non-cash expenses and a \$5,222 increase in interest payments.

Cash provided by working capital for the year ended December 31, 2023 was \$26,693 (2022: \$58,490 consumed) as a result of the following factors:

- Cash provided by trade and other receivables was \$21,230 due to lower sales at both segments;
- Cash provided by inventories was \$20,643, primarily related to efforts to reduce raw materials at the Rubber Solutions segment;
- Cash provided by prepaid expenses was \$968 primarily due to amortizing of insurance premiums;
- Cash used for trade and other payables was \$15,862 due to Manufactured Products' delivery of test kits earlier in the year, and lower inventory at the Rubber Solutions segment.
- Cash used for provisions of \$286 related to the payout of preferred share units and payments to former owners of acquired businesses partially offset by provisions less provisions for legal and restructuring costs.

Investing Activities

Property, Plant and Equipment

For the year ended December 31, 2023, the following investments were made in each segment:

Rubber Solutions invested \$4,969. \$2,789 was invested in growth initiatives, \$1,759 in cost savings initiatives, and the balance was invested to replace or upgrade existing property, plant and equipment.

Manufactured Products invested \$2,287. \$204 was invested in growth initiatives, \$1,304 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 \$1,249 on productivity software and rolling out company-wide enterprise software.

MD&A (cont'd)

Financing activities

The Company has a revolving credit facility providing up to \$250,000 with an accordion of \$75,000 upon the satisfaction of customary conditions for such features. The facility bears interest at SOFR plus applicable margins from 145 to 350 basis points, depending on covenants, and matures on September 23, 2026.

In December 2023, the Company's lenders agreed to amend the credit facility to convert interest from Banker's Acceptance rates to Canadian Overnight Repo Rate Average, add a pricing tier for calculating interest, temporarily change financial covenants to increase maximum permitted leverage and reduce minimum interest coverage, and exclude certain charges from the calculation of financial covenants.

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

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.

The revolving credit facility requires the Company to not exceed certain ratios related to leverage and earnings to interest payments. Meeting these requirements is dependent upon achieving revenue forecasts, reducing costs and improvements to working capital over the next twelve months. In the event of non-compliance, the lenders have a right to demand repayment of the amounts outstanding or pursue other remedies if the Company cannot reach an agreement to amend or waive the covenants. As in the past, the Company monitors its compliance with the covenants and will seek waivers and amendments, subject to lender approval as may become necessary from time to time.

The Company incurred \$688 of finance fees during the year. 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 \$454 (2022: \$376) has been amortized and is included in finance costs.

Interest expense under the credit facility was \$9,890 (2022: \$4,441).

Commitments and contractual obligations

The Company's contractual obligations as at December 31, 2023 are summarized below:

	Payments Due In						Total
	2024	2025	2026	2027	2028	Thereafter	
Revolving line of credit	–	–	118,848	–	–	–	118,848
Lease liabilities	2,437	2,407	2,450	2,565	2,056	1,975	13,890
Purchase obligations	20,601	–	–	–	–	–	20,601
Total	23,038	2,407	121,298	2,565	2,056	1,975	153,339

Government assistance

Scientific research and investment tax credits of \$920 were recognized in 2023 (2022: \$839); research and development expenses were reduced accordingly.

Dividends

A quarterly dividend of \$0.07 CAD per share was declared on November 8, 2023 and paid on January 15, 2024. Total dividends declared during the year were \$0.37 CAD per common share compared to \$0.40 per common share in 2022.

Outstanding shares

As at December 31, 2023 the Company had 27,130,556 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

During the year, the Company paid \$162 (2022: \$168) to companies controlled by the Chairman & Co-CEO of the Company for use of office facilities.

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

December 31	2023	2022
Salaries and other short-term benefits	3,561	4,175
Share-based payment expense (recovery)	820	(5,313)
	4,381	(1,138)

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

Key management own 20.5% of the outstanding common shares as at December 31, 2023 (2022: 21.0%).

In July 2023, the Company agreed to forgive CAD \$591 of loans due from the President & Co-Chief Executive Officer by 12.5% annually. The loans bear interest at 2% and 51,178 shares of the Company having a fair value of \$165 were pledged as collateral on these loans. At December 31, 2023, CAD \$517 remains outstanding under the loans.

In April 2022 the Company loaned \$1,750 to the former Chief Executive Officer of ADG, secured by shares of the Company, bearing interest at 1%, maturing April 2023. In April 2023, the Company amended the loan to bear interest at 2% and extend its maturity to April 2024. The Company has impaired the full value of this loan and is the beneficiary of a pledge of 90,000 shares of the Company as partial collateral for this loan.

At December 31, 2023, loans to current and former officers totaling \$395, including accrued interest, are included in Other Assets on the consolidated statement of financial position (\$2,203 at December 31, 2022). All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities, termination of employment, and maturity. All share purchase loans are full recourse and interest is due and payable semi-annually. During the year, interest payments of \$22 (2022: \$8) was received.

NEW STANDARDS ADOPTED**Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgments***

The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. These amendments did not have a material impact on the consolidated financial statements.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

The amendments to IAS 8 clarify how companies distinguish changes in accounting policies from changes in accounting estimates. Changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally applied retroactively to past transactions and other past events. This amendment did not have a material impact on the consolidated financial statements.

FUTURE ACCOUNTING STANDARDS**Amendments to IAS 1 *Presentation of Financial Statements***

The amendments to IAS 1 specify that only covenants whose compliance is assessed on or before the reporting date affect the classification of debt as current or non-current at the reporting date. The amendments also require disclosure of information about future covenants in the notes to the financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The Company is assessing the impact the amendments will have on its consolidated financial statements.

Amendments to IFRS 16 *Leases*

The amendment adds a requirement that measuring lease payments or revised lease payments shall not result in the recognition of a gain or loss that relates to the right-of-use asset retained by the seller-lessee. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The Company assessed the impact of the amendments and determined there to be no material impact on the 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, 2023, Manufactured Products recorded a \$134 (2022: \$482) allowance for impairment and the Rubber Solutions segment recorded a \$535 (2022: \$243) 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, 2023, a reserve for impaired inventory in the Rubber Solutions segment represents \$1,574 (2022: \$2,437). AirBoss Manufactured Products maintains a provision of \$15,415 (2022: \$60,627).

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. At December 31, 2023, the Company recognized a goodwill impairment related to the defense operations CGU. The carrying amount of this CGU was determined to be higher than its recoverable amount of \$73.4 million and an impairment loss of \$26.6 million during 2023 (2022: nil) was recognized. The impairment loss was fully allocated to goodwill and included in Other Expenses.

The calculation of value-in-use is most sensitive to the following assumptions:

- Discount rate of 14.0% determined using risk-adjusted returns from comparable companies adjusted for the Company's capital structure.
- Terminal multiple of 6.0 based on market capitalization
- Projected average annual sales growth of 15.5% and margins consistent with historical performance to extrapolate cash flows beyond the budget date

A one percent change in the discount rate or terminal multiple would result in an additional impairment of \$1,414, and \$331, respectively.

MD&A (cont'd)

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 2023, 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, 2023, the Company had contracts to sell \$14,438 from January 2024 to November 2024 for Canadian dollars ("CAD") \$19,803. The fair value of these contracts, representing an unrealized gain of \$497, are included in trade and other receivables, including derivatives on the consolidated statement of financial position. The unrealized changes in fair value, representing a gain of \$497 (2022: loss of \$205), are recorded on the statement of profit as other expenses.

Interest rate swap

In February and May 2023, the Company entered into interest rate swap agreements for a combined notional amount of \$46,000, maturing in February and May 2025. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD Secured Overnight Financing Rate ("SOFR") and a weighted average fixed rate of 4.118%.

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 London Interbank Offered Rate ("LIBOR") and the fixed rate of 0.265%.

During 2023, interest recovery on the swap agreement was \$381 (2022: \$310).

At December 31, 2023, the fair value of this agreement, representing a gain of \$252 (2022: \$52), is included in loans and borrowings on the consolidated statement of financial position. The change in the fair value, representing a gain of \$200 (2022: \$4), 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 and February 2023, the Company entered hedging arrangements to reduce its exposure from the change in share price on its share-based compensation costs. At December 31, 2023, the fair value of these agreements, representing a loss of \$403 (2022: gain of \$223) is included in trade and other payables, including derivatives on the condensed consolidated statement of financial position. The change in the fair value, representing a loss of \$605 (2022: gain of \$223), is recorded on the consolidated statement of profit (loss) as other expenses. The realized gain from the swap agreements was \$163 (2022: nil).

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 Manufactured Products, 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 Manufactured Products. 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 Manufactured Products segment.

Political Uncertainty and Policy Change

Certain of the business sectors in which we and our customers operate, particularly in the Manufactured Products' business 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:

In millions of US dollars	Earnings before tax	
	2023	2022
Natural and synthetic rubber	(7.27)	(8.19)
Chemicals (Rubber mixing)	(4.55)	(4.42)
Steel	(3.08)	(2.82)
Carbon black	(3.10)	(3.60)
Silicone	(0.67)	(0.83)
	(18.67)	(19.86)

MD&A (cont'd)

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 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.

Financing-Related Risks

The Company's ability to secure necessary financing on acceptable terms is crucial for day-to-day operations, capital improvements and growth. Failure to obtain and maintain such financing could have an adverse effect on the Company's business. The revolving credit facility which the Company currently has requires that the Company does not exceed certain ratios related to leverage and earnings to interest payments. The Company uses forecasts to project its future compliance with these financial covenants and has in the past negotiated amendments to these covenants when there was a risk of default. Should results for any fiscal period not meet the Company's expectations it will request its lender grant an amendment of the covenants to remain in compliance, though there is no guarantee such a request will be granted. Failure of such request to be granted could result in the Company's lenders taking certain actions including acceleration of debt repayment or imposition of more restrictive covenants, which could have an adverse effect on the Company's financial position and operations.

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):

In millions of US dollars	Earnings before tax	
	2023	2022
Sales (1)	(1.7)	(1.9)
Purchases (2)	6.2	6.1

(1) Based upon Canadian dollar-denominated sales

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

Health, Safety and the Environmental

The Company's operations are subject to extensive health, safety and environmental (HSE) regulations by federal, provincial, state and local authorities. The Company employs individuals who undertake manufacturing activity and handle various substances in its manufacturing process, the nature of which may expose the Company to risks of causing or being deemed liable for injury or environmental or other damages. The Company regularly assesses its policies and procedures relating to workplace safety in its production facilities. While its use of potentially hazardous materials is limited, the Company ensures that its operations are conducted in a manner that minimizes such risks and maintains insurance coverage considered reasonable by management. To date, no regulatory authority has required the Company to pay any material fines or remediation expenses in connection with any alleged violation of HSE regulations. However, there can be no assurance that future personal injury or environmental damage will not occur or that personal injury or environmental damage due to prior or present practices will not result in future liabilities. While management believes that the Company is in substantial compliance with all material HSE government requirements relating to its operations, changes in government laws and regulations are ongoing and may make HSE compliance increasingly expensive. It is not possible to predict future costs, which may be incurred to meet such obligations.

Impacts of Global Health Situations

Global health situations can have an impact on the Company's operations. The duration and scope of future 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% (2022: 9%) of consolidated net sales in 2023. Five customers represented 31% (2022: 33%) of consolidated net sales in 2023. 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 and natural disasters

Extreme weather events such as floods and windstorms and other natural disasters caused by climate change could cause catastrophic destruction to some of our or our suppliers' facilities, interrupt the Company's and its suppliers' and customers' operations and activities and interrupt the ability of raw materials and finished products to be received from suppliers and delivered to customers (physical risks), which could in turn disrupt our production and/or prevent us from supplying products to our customers. Climate change may also have indirect effects on the Company's business by increasing the cost of (or making unavailable) property insurance on terms the Company finds acceptable, as well as increasing the costs of maintenance, capital replacement and expansion, energy, water and other services at the Company's facilities. In addition to physical risks associated with climate change, the potential future requirements that could be imposed by external stakeholders in the transition to a net-zero economy (transition risk) may also impact the Company's business operations. While we conduct risk assessments of our facilities and have implemented mitigation strategies to address, such as insurance policies which protect against property damage and business continuity risk, where practical, physical risks related to extreme weather events or natural disasters and the frequency and severity of any such event can vary by region and cannot be predicted. A catastrophic destruction of our or our facilities or those of our suppliers could have a material adverse effect on our operations and profitability.

Reputational risks

As public awareness and concern about climate change increases, consumer preferences are rapidly evolving towards environmentally friendly and sustainable products. There is a risk that we may face reputational challenges if our products or processes are perceived as harmful to the environment or lagging behind our peers in sustainability practices. In addition, there is a growing emphasis on sustainable and responsible investment criteria by institutional and retail investors that could impact our Company's attractiveness to investors. Failure to meet these evolving criteria may result in a reevaluation of our Company by the market, potentially affecting our stock price and access to capital.

Market Risks

Climate change poses risks to the stability and cost-efficiency of our global supply chain. Extreme weather events, such as floods, hurricanes, and droughts, can disrupt production and logistics, leading to increased costs and delays. These disruptions could impact our ability to meet customer demand and maintain competitive pricing. In addition, regulatory and societal shifts towards a low-carbon economy could significantly alter demand for certain materials and products. Our Company may face risks associated with shifts in demand for our products, particularly if we are unable to adapt our offerings to align with market transitions towards sustainable alternatives.

Policy Risks

The introduction of new regulations aimed at reducing carbon emissions and green house gas emissions, such as carbon pricing mechanisms, emissions trading schemes, and stricter environmental standards, could result in significant compliance costs. Management believes that the Company is in substantial compliance with all material environmental regulations relating to its operations however changes to these regulations are ongoing and accordingly may make compliance increasingly expensive. These costs may impact our profitability and require substantial capital investments to adapt our operations and products. In addition, the Company faces the risk that the certain chemicals and raw materials which are used in the manufacturing of rubber compounds could be restricted or prohibited from use, which the Company would have to mitigate by finding alternatives, which could in turn increase the costs of its products and make them less attractive to customers. Further, the global transition to a low-carbon economy could impose additional regulatory compliance costs if our business model, operations, or products do not align with emerging regulatory requirements or incentives for low-emission technologies, which could affect our competitive positioning and necessitate significant strategic adjustments.

Catastrophic Events

AirBoss has operations and facilities which manufacture products in Canada and the United States. Natural events (such as a hurricane or major earthquake), terrorist attack, pandemics, epidemics, outbreaks of an infectious disease or similar events or other catastrophic events, including adverse weather events associated with global climate change which have increased in severity and frequency in recent years, could cause delays in developing, manufacturing or selling products. Although AirBoss conducts risks assessments and implements mitigation, such as property and business continuity insurance, and third-party supplier monitoring, such events that occur in major markets where AirBoss sells products could reduce the demand for our products in those areas and, as a result, impact our sales into those markets. In either case, any such disruption could have a material adverse effect on the Company's business, financial condition and results of operations.

MD&A (cont'd)

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 & Co-CEO, President and Co-CEO, and CFO, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our Chairman & Co-CEO, President and Co-CEO, and CFO concluded that the design and operation of our disclosure controls and procedures were effective as of December 31, 2023, 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 & Co-CEO, President and Co-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 & Co-CEO, President and Co-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 & Co-CEO, President and Co-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, 2023 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, 2023 and December 31, 2022 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 6, 2024



P. Gren Schoch
Chairman and Co-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, 2023 and December 31, 2022
- the consolidated statements of profit or loss and other comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information (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, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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.

Material Uncertainty Related to Going Concern

We draw your attention to Note 2(e) in the financial statements, which indicates the Entity's continued compliance with amended covenants are dependent on achieving their forecasts with respect to future revenues, reducing costs and improvements to working capital. The inability to meet the amended covenants could lead to the lenders demanding repayment of the revolving credit facility.

As stated in Note 2(e) in the financial statements, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

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, 2023. 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 the Notes 2(d), 3(e)(i) and 8 to the financial statements. The goodwill balance included within intangible assets is \$ 24,929 thousand after the entity recorded an impairment charge of \$26,648 related to AirBoss Defense Group (CGU). 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 judgment due to the high degree of estimation uncertainty in determining the recoverable amount. In addition, the involvement of those with specialized skills and knowledge were 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.

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 "2023 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 "Glossy 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 Accounting Standards as issued by the International Accounting Standards Board, 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.

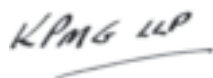
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

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.



Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Elliot Marer.

Vaughan, Canada
March 6, 2024

Consolidated Statement of Financial Position

<i>In thousands of US dollars</i>	<i>Note</i>	December 31, 2023	December 31, 2022
ASSETS			
Current assets			
Cash and cash equivalents		28,989	18,552
Trade and other receivables, including derivatives	4, 10	73,237	94,628
Prepaid expenses		8,361	9,310
Inventories	5	64,159	92,833
Current income taxes receivable	16	8,105	8,466
Total current assets		182,851	223,789
Non-current assets			
Property, plant and equipment	6, 7	84,573	89,292
Intangible assets	8	78,689	113,237
Deferred Income tax assets	16	9,702	11,799
Other assets	9	841	2,649
Total non-current assets		173,805	216,977
Total assets		356,656	440,766
LIABILITIES			
Current liabilities			
Loans and borrowings	7, 11	2,437	2,286
Trade and other payables, including derivatives	10	68,062	85,239
Provisions	13	2,409	2,108
Current taxes payable	16	–	609
Total current liabilities		72,908	90,242
Non-current liabilities			
Loans and borrowings	7, 11	128,655	141,356
Employee benefits	19	441	408
Provisions	13	2,735	8,548
Deferred income tax liabilities	16	3,060	3,215
Total non-current liabilities		134,891	153,527
Total liabilities		207,799	243,769
EQUITY			
Share capital	14	87,992	87,811
Contributed surplus	14	5,480	4,598
Retained earnings		55,385	104,588
Total equity		148,857	196,997
Total liabilities and equity		356,656	440,766

The notes on pages 37 to 63 are an integral part of these consolidated financial statements.
Commitments and contingencies (note 18).

On behalf of the Board



P.G. Schoch
Director



Robert L. McLeish
Director

Consolidated Statement of Loss and Comprehensive loss

For the year ended December 31

In thousands of US dollars

	Note	2023	2022
Net Sales		426,025	477,155
Cost of sales	5	(367,615)	(453,024)
Gross profit		58,410	24,131
General and administrative expenses	3	(52,745)	(46,478)
Selling and marketing expenses		(8,713)	(8,223)
Research and development expenses	17	(3,124)	(3,390)
Other expenses		(27,350)	(714)
Operating expenses		(91,932)	(58,805)
Results from operating activities		(33,522)	(34,674)
Finance costs	12	(5,233)	(5,738)
Loss before income tax		(38,755)	(40,412)
Income tax recovery (expense)	16	(2,994)	8,520
Loss and comprehensive loss		(41,749)	(31,892)
Earnings (loss) per share			
Basic	15	(1.54)	(1.18)
Diluted	15	(1.54)	(1.18)

The notes on pages 37 to 63 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

<i>In thousands of US dollars</i>	Attributable to equity holders of the Company			
	Share Capital	Contributed Surplus	Retained Earnings	Total 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				
Share-based compensation expense	–	1,600	–	1,600
Stock options exercised	(622)	(71)	–	(693)
Stock options forfeited	–	(53)	–	(53)
Shares issued	496	–	–	496
Deferred share unit reclassified as equity	–	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

<i>In thousands of US dollars</i>	Attributable to equity holders of the Company			
	Share Capital	Contributed Surplus	Retained Earnings	Total equity
Balance at January 1, 2023	87,811	4,598	104,588	196,997
Loss and comprehensive loss for the year	–	–	(41,749)	(41,749)
Contributions by and distributions to owners				
Share-based compensation expense	–	1,438	–	1,438
Stock options forfeited	–	(375)	–	(375)
Settlement of deferred share units	181	(181)	–	–
Dividends to equity holders	–	–	(7,454)	(7,454)
Total contributions by and distributions to owners	181	882	(7,454)	(6,391)
Balance at December 31, 2023	87,992	5,480	55,385	148,857

The notes on pages 37 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	2023	2022
Cash flows from operating activities			
Profit (loss) for the year		(41,749)	(31,892)
Adjustments for:			
Depreciation	6, 7	13,127	12,609
Amortization of intangible assets	8	9,218	9,296
Impairment of intangible assets	8	26,648	–
Write-down of inventory	5	8,031	57,001
Finance costs	11, 19	5,233	5,738
Unrealized foreign exchange (gains) losses		(626)	135
Share-based payment expense (recovery)	13, 14	1,447	(5,394)
SRED tax credits	17	(920)	(839)
Income tax expense (recovery)	16	2,994	(8,520)
Impairment of share purchase loan		1,779	–
Other		176	(158)
		25,358	37,976
Change in inventories		20,643	(25,140)
Change in trade and other receivables		21,230	(12,252)
Change in prepaid assets		968	727
Change in trade and other payables		(15,862)	(19,997)
Change in provisions		(286)	(1,828)
Net change in non-cash working capital balances		26,693	(58,490)
Interest paid		(10,778)	(5,556)
Income tax paid		(356)	(4,705)
Net cash provided by (used in) operating activities		40,917	(30,775)
Cash flows from investing activities			
Proceeds from sale of asset		41	3
Acquisition of property, plant and equipment		(7,256)	(8,800)
Acquisition of intangible assets	8	(1,249)	(1,392)
Net cash used in investing activities		(8,464)	(10,189)
Cash flows from financing activities			
Proceeds from operating line of credit		(11,000)	65,100
Principal payments for lease liabilities		(2,490)	(2,364)
Debt refinancing costs		(688)	–
Exercise of stock options (net of withholding tax)		–	(693)
Repayment of share purchase loans		–	239
Issuance of share purchase loans		–	(1,750)
Interest received on share purchase loan		22	8
Dividends paid		(8,040)	(8,338)
Net cash provided by (used in) financing activities		(22,196)	52,202
Net (decrease) / increase in cash and cash equivalents		10,257	11,238
Cash and cash equivalents at January 1		18,552	7,131
Effect of exchange rate fluctuations on cash held		180	183
Cash and cash equivalents at December 31		28,989	18,552

The notes on pages 37 to 63 are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements ("CFS")

For the years ended December 31, 2023 and 2022*(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 20).

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

List of Subsidiaries

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

Operating Subsidiaries	Jurisdiction	Ownership %
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%

Beginning with the fourth quarter ended December 31, 2023, AirBoss realigned the organizational and governance structures of its businesses to focus on rubber compounding as a key product driver for sustainable growth and productivity. Such realignment gave rise to changes in how the Company presents information for financial reporting and management decision-making purposes and resulted in a change in the Company's reporting segments. The Company's operating segments are now organized into the following reportable segments:

- AirBoss Rubber Solutions ("ARS") - Includes manufacturing and distribution of rubber compounds and distribution of rubber compounding related chemicals.
- AirBoss Manufactured Products ("AMP") - Includes the manufacture and distribution of anti-noise, vibration and harshness dampening parts, and personal protection and safety products, primarily for CBRN-E threats.
- Unallocated Corporate Costs - Includes corporate activities and certain unallocated costs.

ARS consists of AirBoss' custom rubber compounding operations in Kitchener, Ontario, Rock Hill, South Carolina, Scotland Neck, North Carolina, plus the Company's rubber compounding business in Acton Vale, Quebec (formerly part of the AirBoss Defense Group Segment). AMP consists of the Company's rubber molded product operations in Auburn Hills, Michigan and the Company's defense businesses in Jessup, Maryland, Acton Vale, Quebec, Rochester, New York and Charleston, South Carolina.

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 6, 2024.

(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 – trade and other receivables

Note 5 – inventories

Note 7 – leases

Note 8 – intangible assets

Note 16 – income taxes

Note 17 – government assistance

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

Note 8 – intangible assets - key assumptions used in value-in-use calculations

Note 13 – provisions

Note 14 – capital and other components of equity

Note 16 – income taxes

Note 18 – commitments and contingencies

Note 19 – post-retirement benefits.

(e) Going Concern

The consolidated financial statements have been prepared on a going concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business. If this assumption was not appropriate as at December 31, 2023, material adjustments to the carrying value of the assets and liabilities would be necessary.

In December 2023, the Company renegotiated temporary changes to the financial covenants to increase maximum permitted leverage, reduce minimum interest coverage, and exclude certain charges from the calculation of financial covenants. Continued compliance with the amended covenants are dependent upon achieving revenue forecasts, reducing costs and improvements to working capital over the next 12 months. However, market conditions may cause results to not materialize thus such events and conditions indicate that a material uncertainty exists on the Company’s ability to continue as a going concern. In the event of non-compliance, the lenders have a right to demand repayment of the amounts outstanding or pursue other remedies if the Company cannot reach an agreement to amend or waive the covenants.

As in the past, the Company monitors its compliance with the covenants and will seek waivers and amendments, subject to lender approval as may become necessary from time to time.

NOTE 3 MATERIAL 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) 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.

(iv) 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.

(v) 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 8-20 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) Defined Benefit plan**

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) 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.

(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 & Co-CEO, and President & Co-CEO (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 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgments***

The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. These amendments did not have a material impact on the consolidated financial statements.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

The amendments to IAS 8 clarify how companies distinguish changes in accounting policies from changes in accounting estimates. Changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally applied retroactively to past transactions and other past events. This amendment did not have a material impact on the consolidated financial statements.

(q) Future Accounting Standards**Amendments to IAS 1 *Presentation of Financial Statements***

The amendments to IAS 1 specify that only covenants whose compliance is assessed on or before the reporting date affect the classification of debt as current or non-current at the reporting date. The amendments also require disclosure of information about future covenants in the notes to the financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The Company is assessing the impact the amendments will have on its consolidated financial statements.

Amendments to IFRS 16 *Leases*

The amendment adds a requirement that measuring lease payments or revised lease payments shall not result in the recognition of a gain or loss that relates to the right-of-use asset retained by the seller-lessee. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The Company assessed the impact of the amendments and determined there to be no material impact on the consolidated financial statements.

AirBoss of America Corp.

Notes to CFS (cont'd)

NOTE 4 TRADE AND OTHER RECEIVABLES

December 31	2023	2022
Trade receivables	71,711	93,367
Less: expected credit loss	(669)	(725)
	71,042	92,642
Other receivables	2,195	1,986
	73,237	94,628

Impairment losses

The aging of trade receivables at the reporting date was:

December 31	Gross	2023 Impairment	Gross	2022 Impairment
Within terms	52,804	—	70,382	—
Past due 0-30 days	11,722	—	14,117	—
Past due 31-120 days	7,185	(669)	8,868	(725)
	71,711	(669)	93,367	(725)

The continuity of the allowance for impairment was:

For the year ended December 31	2023	2022
Balance at January 1	(725)	(601)
Impairment loss recognized	(765)	(251)
Collected	772	74
Written-off	49	53
Balance at December 31	(669)	(725)

NOTE 5 INVENTORIES

December 31	2023	2022
Raw materials and consumables	34,124	53,305
Work in progress	10,084	8,205
Finished goods	36,405	92,745
Inventory in transit	535	1,642
	81,148	155,897
Provisions	(16,989)	(63,064)
	64,159	92,833

An inventory charge of \$8,425 (2022: \$54,633) was included in cost of sales. During the quarter ended December 31, 2023, the Company recorded a \$8,031 inventory provision related to its inventory of nitrile gloves due to significant downward shifts in pricing. During the quarter ended September 30, 2022, the Company recorded a \$54,500 inventory provision related to its inventory of nitrile gloves due to significant downward shifts in pricing and some gloves no longer meeting the Company's safety standards and disposed of these gloves during 2023.

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings ¹	Plant and equipment ¹	Furniture and equipment ¹	Under construction	Total
Cost					
Balance at January 1, 2022	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
Depreciation for the period	621	634	153	7,206	8,614
Disposals	(346)	(1,325)	(31)	–	(1,702)
Transfers	813	4,305	6	(5,197)	(73)
Balance at December 31, 2023	55,039	124,405	3,133	9,686	192,263
Accumulated Depreciation					
Balance at January 1, 2022	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
Depreciation for the period	3,726	9,114	287	–	13,127
Disposals	(339)	(1,196)	(30)	–	(1,565)
Transfers	–	(4)	–	–	(4)
Balance at December 31, 2023	25,027	80,228	2,435	–	107,690

(1) includes right of use assets. See note 7 for additional details.

Carrying amounts

<i>In thousands of US dollars</i>	Land and buildings	Plant and equipment	Furniture and equipment	Under construction	Total
Balance at December 31, 2022	32,311	48,477	827	7,677	89,292
Balance at December 31, 2023	30,012	44,177	698	9,686	84,573

Depreciation expense of \$12,416 (2022: \$11,913) was charged to cost of sales, \$688 (2022: \$630) was charged to general and administrative expense and \$23 (2022: \$66) was charged to research and development expenses.

NOTE 7 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 7 years.

Right-of-Use Assets

	Land and buildings	Equipment	Total
Cost			
Balance at January 1, 2022	18,789	2,000	20,789
Lease additions	–	20	20
Balance at December 31, 2022	18,789	2,020	20,809
Lease additions	572	786	1,358
Disposals	(297)	(322)	(619)
Balance at December 31, 2023	19,064	2,484	21,548
Accumulated depreciation			
Balance at January 1, 2022	3,928	845	4,773
Depreciation	2,069	436	2,505
Balance at December 31, 2022	5,997	1,281	7,278
Depreciation	2,049	529	2,578
Disposals	(297)	(321)	(618)
Balance at December 31, 2023	7,749	1,489	9,238
Carrying amount at December 31, 2022	12,792	739	13,531
Carrying amount at December 31, 2023	11,315	995	12,310

Lease Liabilities

Interest expense on lease liabilities of \$642 (2022: \$708) is included in Finance Costs.

Lease liabilities of \$13,890 (2022: \$15,007) are included in Loans and Borrowings (see note 11)

Cash outflow related to leases was \$3,132 (2022: \$3,072).

The future undiscounted contractual lease payments are as follows:

<i>In thousands of US dollars</i>	Total	2024	2025	2026	2027	2028	Thereafter
Lease payments	15,527	3,082	2,906	2,830	2,837	2,196	1,676

NOTE 8 INTANGIBLE ASSETS

	Goodwill	Customer Relationships	Brands, Patents and Trademarks	Software and Development costs	Total
Cost					
Balance at January 1, 2022	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
Additions	–	–	–	1,249	1,249
Impairment	(26,648)	–	–	–	(26,648)
Disposals	–	–	–	(69)	(69)
Transfers	–	–	–	69	69
Balance at December 31, 2023	24,929	63,210	31,224	10,769	130,132
Accumulated Amortization					
Balance at January 1, 2022	–	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
Acquisition of subsidiary	–	–	–	–	–
Amortization for the year	–	5,294	2,799	1,125	9,218
Disposals	–	–	–	(69)	(69)
Balance at December 31, 2023	–	35,914	8,799	6,730	51,443
Carrying amounts					
Balance at December 31, 2022	51,577	32,590	25,224	3,846	113,237
Balance at December 31, 2023	24,929	27,296	22,425	4,039	78,689

Amortization expense of \$9,218 (2022: \$9,296) was charged to general and administrative expense. Remaining amortization for customer relationships acquired is 1 to 15 years and patents and trademarks is 1 to 18 years.

Goodwill

December 31	2023	2022
AirBoss Rubber Solutions	14,864	11,163
AirBoss Manufactured Products - rubber molded products	10,065	10,065
AirBoss Manufactured Products - defense business	–	30,349
	24,929	51,577

Goodwill is allocated to those cash-generating units ("CGUs") 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.

In relation to the change in the Company's segments (see note 20), the goodwill of the AirBoss Defense Group segment was split between the industrial rubber CGU and the defense operations CGU on the basis of relative fair value of the respective CGU. \$3.7 million of goodwill was allocated to the industrial rubber CGU that is now included in the Rubber Solutions Segment and \$26.6 million of goodwill remained with the defense operations CGU that is part of the AirBoss Manufactured Products segment.

At December 31, 2023, the Company recognized a goodwill impairment related to the defense operations CGU. The carrying amount of this CGU was determined to be higher than its recoverable amount of \$73.4 million and an impairment loss of \$26.6 million during 2023 (2022: nil) was recognized. The impairment loss was fully allocated to goodwill and included in Other Expenses.

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

AirBoss Rubber Solutions

The calculation of value-in-use is most sensitive to the following assumptions:

- Discount rate of 12.7% determined using risk-adjusted returns from comparable companies adjusted for the Company's capital structure.
- Terminal multiple of 6.0 based on market capitalization
- Projected average annual sales growth of 9.1% and margins consistent with historical performance to extrapolate cash flows beyond the budget date

AirBoss Manufactured Products - rubber molded products

The calculation of value-in-use is are most sensitive to the following assumptions:

- Discount rate of 12.7% determined using risk-adjusted returns from comparable companies adjusted for the Company's capital structure.
- Terminal multiple of 6.0 based on market capitalization
- Projected average annual sales growth of 6.2% and margins consistent with historical performance to extrapolate cash flows beyond the budget date

AirBoss Manufactured Products - defense operations

The calculation of value-in-use is most sensitive to the following assumptions:

- Discount rate of 14.0% determined using risk-adjusted returns from comparable companies adjusted for the Company's capital structure.
- Terminal multiple of 6.0 based on market capitalization
- Projected average annual sales growth of 15.5.% and margins consistent with historical performance to extrapolate cash flows beyond the budget date

A one percent change in the discount rate or terminal multiple would result in an additional impairment of \$1,414, and \$331, respectively.

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).

NOTE 9 OTHER ASSETS

	Share purchase loans ¹	Other	Total
Balance at January 1, 2022	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
Accrued interest	37	—	37
Interest paid	(22)	—	(22)
Loan forgiven	(56)	—	(56)
Loan impairment	(1,779)	—	(1,779)
Effect of movements in exchange rates	12	—	12
Balance at December 31, 2022	395	446	841

(1) see note 21 for additional details.

NOTE 10 DERIVATIVES NOT DESIGNATED IN A FORMAL HEDGING RELATIONSHIP**Foreign exchange hedge**

At December 31, 2023, the Company had contracts to sell \$14,438 from January 2024 to November 2024 for Canadian dollars ("CAD") \$19,803. The fair value of these contracts, representing an unrealized gain of \$497, are included in trade and other receivables, including derivatives on the consolidated statement of financial position. The unrealized changes in fair value, representing a gain of \$497 (2022: loss of \$205), are recorded on the statement of profit as other expenses.

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.

Interest rate swap

In February and May 2023, the Company entered into interest rate swap agreements for a combined notional amount of \$46,000, maturing in February and May 2025. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD Secured Overnight Financing Rate ("SOFR") and a weighted average fixed rate of 4.118%.

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 London Interbank Offered Rate ("LIBOR") and the fixed rate of 0.265%.

During 2023, interest recovery on the swap agreement was \$381 (2022: \$310).

At December 31, 2023, the fair value of this agreement, representing a gain of \$252 (2022: \$52), is included in loans and borrowings on the consolidated statement of financial position. The change in the fair value, representing a gain of \$200 (2022: \$4), 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 and February 2023, the Company entered hedging arrangements to reduce its exposure from the change in share price on its share-based compensation costs. At December 31, 2023, the fair value of these agreements, representing a loss of \$403 (2022: gain of \$223) is included in trade and other payables, including derivatives on the condensed consolidated statement of financial position. The change in the fair value, representing a loss of \$605 (2022: gain of \$223), is recorded on the consolidated statement of profit (loss) as other expenses. The realized gain from the swap agreements was \$163 (2022: nil).

NOTE 11 LOANS AND BORROWINGS

December 31	2023	2022
Non-current		
Revolving line of credit	119,100	130,100
Interest rate swap	(252)	(52)
Lease liabilities	11,453	12,721
Less: deferred financing	(1,646)	(1,413)
	128,655	141,356
Current		
Lease liabilities	2,437	2,286
	2,437	2,286
December 31	2023	2022
Revolving line of credit	119,100	130,100
Interest rate swap	(252)	(52)
Lease liabilities	13,890	15,007
Subtotal	132,738	145,055
Less principal due within one year	(2,437)	(2,286)
	130,301	142,769
Less deferred financing	(1,646)	(1,413)
	128,655	141,356

AirBoss of America Corp.

Notes to CFS (cont'd)

The Company has a revolving credit facility providing up to \$250,000 with an accordion of \$75,000 upon the satisfaction of customary conditions for such features. The facility bears interest at SOFR plus applicable margins from 145 to 350 basis points, depending on covenants, and matures on September 23, 2026.

In December 2023, the Company's lenders agreed to amend the credit facility to convert interest from Banker's Acceptance rates to Canadian Overnight Repo Rate Average, add a pricing tier for calculating interest, temporarily change financial covenants to increase maximum permitted leverage and reduce minimum interest coverage, and exclude certain charges from the calculation of financial covenants.

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

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.

The Company incurred \$688 of finance fees during the year. 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 \$454 (2022: \$376) has been amortized and is included in finance costs.

Interest expense under the credit facility was \$9,890 (2022: \$4,441).

Principal repayments on the loans and borrowings are as follows:

	Total	2024	2025	2026	2027	2028	Thereafter
Revolving line of credit	118,848	—	—	118,848	—	—	—
Lease liabilities	13,890	2,437	2,407	2,450	2,565	2,056	1,975
	132,738	2,437	2,407	121,298	2,565	2,056	1,975

As at December 31, 2023, \$119,100 was drawn against the credit facility (2022: \$130,813).

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, 2023 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	
	2023	2022	2023	2022
Revolving line of credit and interest rate swap	117,202	128,635	118,848	130,156
Lease liabilities	13,890	15,007	12,243	13,726

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 8.0% (2022: 6.3%) for the credit facility and lease liabilities.

NOTE 12 FINANCE COSTS

For the year ended December 31	Note	2023	2022
Interest on borrowings under credit facility	11	9,890	4,441
Interest on lease liabilities	7	642	708
Amortization of deferred finance fees	11	454	376
Change in fair value of interest rate hedges	10	(200)	(4)
Cash settlement of interest rate hedges	10	(381)	(310)
Change in fair value of contingent consideration	13	(5,608)	(37)
Other		436	564
Net Finance costs		5,233	5,738

NOTE 13 PROVISIONS

	Legal and other	Restructuring	PSUs and DSUs	Payable to former owners of acquired businesses	Total
Balance at January 1, 2022	79	—	9,803	10,469	20,351
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
Change in fair value of B3 provision	—	—	—	(5,608)	(5,608)
Provisions accrued	1,650	1,333	438	—	3,421
Payments	—	(982)	(1,248)	(1,039)	(3,269)
Forfeitures	—	—	(54)	—	(54)
Foreign exchange	—	—	(2)	—	(2)
Balance at December 31, 2023	1,729	351	413	2,651	5,144
Less: amount due within one year	(1,650)	(351)	(109)	(299)	(2,409)
	79	—	304	2,352	2,735

In the third quarter of 2023, the Company was named a defendant in legal proceedings related to a settlement agreement associated with shipping and demurrage costs owed to a vendor by a former subcontractor of the Company. The Company is vigorously defending this matter. The Company has a provision based on management's best estimate of the expenditure to settle when possible outcomes are considered. 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.

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 was paid in 2022.

The Company committed to a plan to reduce headcount and to close the Rubber Solutions segment's facility in Chicago, Illinois. The Company recorded a provision to cover these costs with \$351 is expected to be paid out within 2024. In addition to these costs, the Company recorded an impairment charge against the \$1,750 loan due from the former Chief Executive Officer of ADG (see note 21).

Performance Awards

The Company has issued 233,460 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.

<i>Performance stock units</i>	2023	2022
January 1	274,841	224,470
New issuances	131,841	79,367
Forfeitures	(26,745)	(11,520)
Settlements	(146,477)	(17,476)
December 31	233,460	274,841

During 2023, the Company recognized costs of \$384 (2022: cost recoveries of \$3,691) related to the plan.

NOTE 14 CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital and Contributed Surplus

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

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

Under the Omnibus plan, a maximum of 10% of issued and outstanding shares are available for issuance under any type of share-based compensation plan. As at December 31, 2023, 603,302 shares are available (2022: 903,907).

Issued share capital is as follows:

<i>In thousands of shares</i>	2023	2022
January 1	27,092	26,993
Issued to employee	–	20
Exercise of share options	–	79
Settlement of deferred share units	39	–
December 31	27,131	27,092

Issuance of common shares

During 2023, nil options (2022: 122,040) were exercised resulting in the issuance of nil common shares (2022: 79,079 common shares).

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, 2023, are as follows:

Range of exercise price (\$CAD)	Options outstanding Quantity	Weighted average contract life	Options exercisable Quantity
5.14	1,121,477	1.23	816,247
7.65	389,609	4.23	–
9.49	138,644	0.41	138,644
16.30	25,000	1.42	18,750
17.53	8,372	1.87	6,279
32.45	181,378	3.21	45,345
36.01	92,035	2.23	46,017
	1,956,515		1,071,282

Options granted and outstanding:

A summary of the status of the Company's stock option plan as of December 31, 2023 and 2022 and changes during the years then ended, is presented below:

	2023		2022	
	Quantity	Weighted average exercise price (\$CAD)	Quantity	Weighted average exercise price (\$CAD)
Outstanding beginning of year	1,670,409	12.23	1,650,792	9.11
Granted	399,445	7.65	213,800	32.45
Exercised	–	0.00	(122,040)	5.36
Forfeited	(113,339)	32.42	(72,143)	12.25
Outstanding end of year	1,956,515	10.13	1,670,409	12.23

Notes to CFS (cont'd)

Inputs for measurement of grant date fair values

The grant date fair value of all options were measured based on the Black-Scholes model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

Fair value of share options and assumptions

<i>In Canadian dollars</i>	March 2023	March 2022
Fair value at grant date	\$ 2.53	\$ 11.76
Share price at grant date	\$ 7.94	\$ 32.84
Exercise price	\$ 7.65	\$ 32.45
Expected volatility (weighted average volatility)	50.6%	42.4%
Option life (expected weighted average life)	5 years	5 years
Expected annual dividend rate	5.0%	1.2%
Risk-free interest rate (based on government bonds)	3.0%	2.0%

The stock options issued vest as follows:

	Quantity
Vested at December 31, 2023	1,071,282
2024	479,328
2025	165,756
2026	142,747
2027	97,402
	1,956,515

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.

<i>Deferred stock units</i>	2023	2022
January 1	134,888	112,335
New issuances	56,866	22,553
Settlements	(38,515)	—
December 31	153,239	134,888

During 2023, the Company recognized costs of \$262 (2022: recoveries of \$3,220) related to DSUs issued under the Omnibus Plan. 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 no longer records 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 records fair value of the cost of DSUs over their vesting periods based on their fair values at the grant dates.

Stock option expense

During 2023, the Company recognized employee costs of \$801 (2022: \$1,517) relating to option grants in general and administrative expenses in the consolidated statement of profit (loss).

Dividends

Dividends on common shares were paid to shareholders of record quarterly in 2023 and in 2022 as follows:

Shareholder of record at:	2023		2022	
	\$CAD/share	Date Paid	\$CAD/share	Date Paid
March 31	0.10	April 17, 2023	0.10	April 15, 2022
June 30	0.10	July 17, 2023	0.10	July 15, 2022
September 30	0.10	October 16, 2023	0.10	October 15, 2022
December 31	0.07	January 15, 2024	0.10	January 15, 2023
	0.37		0.40	

The dividend payable at December 31, 2023 was \$1,436 (2022: \$2,000).

NOTE 15 EARNINGS PER SHARE

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

For the year ended December 31 <i>In thousands of US dollars except per share amounts</i>	2023	2022
Numerator for basic and diluted earnings per share:		
Net income (loss)	(41,749)	(31,892)
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	27,118	27,071
Diluted weighted average number of shares outstanding	27,118	27,071
Profit (loss) per share:		
Basic	(1.54)	(1.18)
Diluted	(1.54)	(1.18)

As of December 31, 2023, 1,956,515 options (2022: 1,670,409 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 16 INCOME TAXES

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

For the year ended December 31	2023	2022
Combined federal and provincial statutory income tax	(10,272)	(10,709)
Foreign tax differential	1,436	2,137
Effect of permanent differences	(225)	225
Change in tax rates and new legislation	—	259
Difference arising on filing and assessments	5	(309)
Deductible temporary differences not recognized	12,051	(14)
Other	(1)	(109)
Total expense (recovery)	2,994	(8,520)
The components of the provision for income taxes are as follows:		
Current	1,052	3,661
Deferred	1,942	(12,181)
Total expense (recovery)	2,994	(8,520)

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	2023	2022
Deferred income tax assets:		
Non-capital income tax loss carry-forwards	8,748	18,283
Equity Compensation	344	536
Capital assets	—	286
Reserve	8,673	5,520
Other	283	231
	18,048	24,856
Deferred income tax liabilities:		
Reserve	(109)	(73)
Capital assets	(11,145)	(16,096)
Other	(152)	(103)
	(11,406)	(16,272)
Net deferred income tax liabilities	6,642	8,584
Recorded on the consolidated statement of financial position:		
Deferred income tax assets	9,702	11,799
Deferred income tax liabilities	(3,060)	(3,215)
Net	6,642	8,584

Notes to CFS (cont'd)

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 \$100,920 of unused tax losses (2022: \$102,981) available to offset future income taxes in the US. \$42,092 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 temporary differences associated with investments in subsidiaries for which no deferred income tax assets (liabilities) have been recognized is \$32,906 (2022: taxable temporary differences of \$(11,614)).

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	2023		2022	
	Gross amount	Tax effect	Gross amount	Tax effect
Capital losses	575	72	575	72
Operating losses	83,164	18,672	29,289	6,764
Deductible temporary differences	7,542	1,716	4,716	1,089
	91,281	20,460	34,580	7,925

NOTE 17 GOVERNMENT ASSISTANCE

Scientific research and investment tax credits of \$920 were recognized in 2023 (2022: \$839); research and development expenses were reduced accordingly.

NOTE 18 COMMITMENTS AND CONTINGENCIES**Commitments**

The Company has purchase commitments of \$20,601 (2022: \$30,854) for raw materials. Delivery on these commitments is expected in 2024.

Litigation

In the third quarter of 2023, the Company was named a defendant in legal proceedings related to a settlement agreement associated with shipping and demurrage costs owed to a vendor by a former subcontractor of the Company. The Company is vigorously defending this matter. The Company has a \$1,650 provision based on management's best estimate of the expenditure to settle when possible outcomes are considered.

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 provision is recognized in relation to this claim at December 31, 2023 and 2022.

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.

Notes to CFS (cont'd)

NOTE 19 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, 2023, the weighted average duration of the defined benefit obligation was 10 years (2022: 8 years).

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

December 31	2023	2022
Present value of unfunded obligation and liability in the Consolidated Statement of Financial Position	441	408
Movement in the defined benefit obligation is as follows:		
At January 1	408	579
Current service cost	2	4
Interest cost	20	15
Benefit payment	(48)	(55)
Actuarial gain	50	(99)
Foreign currency translation	9	(36)
	441	408
At December 31		
Amounts recognized in the Consolidated Statement of Profit (loss):		
Post-retirement benefits (recovery)/expense	52	(142)
Interest cost	20	15
Foreign currency translation	9	(36)
Recovery	81	(163)

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	2023	2022
The principal actuarial valuation assumptions used were as follows:		
Discount rate	4.65%	5.15%
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

Notes to CFS (cont'd)

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	2023	2022
Effect of an increase of 1%		
Post-employment benefit obligation	39	(32)
Effect of a decrease in 1%		
Post-employment benefit obligation	47	38
Mortality Sensitivity Analysis		
Effect of an increase of 10% on mortality rates		
Post-employment benefit obligation	(10)	1
Effect of a decrease of 10% on mortality rates		
Post-employment benefit obligation	9	(2)

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 2023 were \$607 (2022: \$531).

ANC maintains a 401(k) plan for its employees. Total contributions and expense to this plan during 2023 were \$103 (2022: \$130).

Ace maintains a 401(k) plan for its employees. Total contributions and expense to this plan during 2023 were \$88 (2022: \$104).

AFP maintains a 401(k) defined contribution plan for its employees. Total contributions and expense to this plan during 2023 were \$480 (2022: \$538).

ADG USA maintains a 401(k) defined contribution plan for its employees. Total contributions and expense to this plan during 2023 were \$136 (2022: \$123).

ADG Canada employees are covered under various registered and unregistered defined contribution plans. Total contribution and expense to these plans for 2023 were \$276 (2022: \$217).

CSI maintains a 401(k) defined contribution plan for its employees. Total contribution and expense to these plans for 2023 were \$74 (2022: \$87).

B3 maintains a 401(k) defined contribution plan for its employees. Total contribution and expense to these plans for 2023 were \$41 (2022: \$37).

Multi-Employer Pension Plan

During 2023, the Company made contributions of \$304 (2022: \$299) to a multi-employer pension plan. At December 31, 2023, multi-employer pension plan had assets of \$5,827 (2022: \$6,871) and liabilities of \$6,822 (2022: \$6,602). The collective bargaining agreement requires that the Company contributes \$0.50 for each hour worked by eligible employees during the preceding wage month.

NOTE 20 SEGMENTED INFORMATION

On December 31, 2023, the Company realigned the organizational and governance structures of its businesses to focus on rubber compounding as a key product driver for sustainable growth and productivity. Such realignment gave rise to changes in how the Company presents information for financial reporting and management decision-making purposes and resulted in a change in the Company's reporting segments. The Company's operating segments are organized into the following reportable segments:

- **ARS** - Includes manufacturing and distribution of rubber compounds and distribution of rubber compounding related chemicals.
- **AMP** - Includes the manufacture and distribution of anti-noise, vibration and harshness dampening parts, and personal protection and safety products, primarily for CBRN-E threats.
- **Unallocated Corporate Costs** - Includes corporate activities and certain unallocated costs.

ARS consists of AirBoss' custom rubber compounding operations in Kitchener, Ontario, Rock Hill, South Carolina, Scotland Neck, North Carolina, plus the Company's rubber compounding business in Acton Vale, Quebec (formerly part of the AirBoss Defense Group Segment). AMP consists of the Company's rubber molded product operations in Auburn Hills, Michigan and the Company's defense businesses in Jessup, Maryland, Acton Vale, Quebec, Rochester, New York and Charleston, South Carolina.

AirBoss of America Corp.

Notes to CFS (cont'd)

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 & Co-CEO, and President & Co-CEO. 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	Rubber Solutions		Manufactured Products		Unallocated Corporate costs		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
<i>In thousands of US dollars</i>								
Segment net sales	248,395	283,181	202,290	218,475	–	–	450,685	501,656
Inter-segment net sales	(22,343)	(23,328)	(2,317)	(1,173)	–	–	(24,660)	(24,501)
External net sales	226,052	259,853	199,973	217,302	–	–	426,025	477,155
Depreciation and amortization	8,246	8,082	13,853	13,572	246	251	22,345	21,905
Segment measure of profit (loss)	16,326	21,454	(37,044)	(53,052)	(12,804)	(3,076)	(33,522)	(34,674)
Finance costs							5,233	5,738
Income tax expense							2,994	(8,520)
Profit (loss)							(41,749)	(31,892)
Segment assets	174,745	200,339	179,695	235,789	2,216	4,638	356,656	440,766
Segment liabilities	37,924	46,776	107,979	121,674	61,896	75,319	207,799	243,769
Capital additions	5,321	6,766	3,197	1,956	1,345	1,490	9,863	10,212

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	2023		2022	
	Net sales	Non-current assets	Net sales	Non-current assets
Canada	68,094	48,489	70,248	59,340
United States	323,242	125,316	363,994	157,637
Other countries	34,689	–	42,913	–
	426,025	173,805	477,155	216,977

Major customers

Net sales from one customer represent approximately 9% (2022: 9%) of consolidated net sales in 2023. Five customers represented 31% (2022: 33%) of consolidated net sales in 2023.

Major Products

	2023	2022
Rubber Solutions		
Tolling	5,005	10,009
Industrial	40,301	44,641
Mixing	180,746	205,203
	226,052	259,853
Manufactured Products		
Anti-vibration	147,045	131,371
Defense	52,928	85,931
	199,973	217,302
	426,025	477,155

NOTE 21 RELATED PARTIES**Related Party Transactions**

During the year, the Company paid \$162 (2022: \$168) to companies controlled by the Chairman & Co-CEO of the Company for use of office facilities.

Transactions with key management personnel

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

December 31	2023	2022
Salaries and other short-term benefits	3,561	4,175
Share-based payment expense (recovery)	820	(5,313)
	4,381	(1,138)

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

Key management own 20.5% of the outstanding common shares as at December 31, 2023 (2022: 21.0%).

In July 2023, the Company agreed to forgive CAD \$591 of loans due from the President & Co-Chief Executive Officer by 12.5% annually. The loans bear interest at 2% and 51,178 shares of the Company having a fair value of \$165 were pledged as collateral on these loans. At December 31, 2023, CAD \$517 remains outstanding under the loans.

In April 2022 the Company loaned \$1,750 to the former Chief Executive Officer of ADG, secured by shares of the Company, bearing interest at 1%, maturing April 2023. In April 2023, the Company amended the loan to bear interest at 2% and extend its maturity to April 2024. The Company has impaired the full value of this loan and is the beneficiary of a pledge of 90,000 shares of the Company as partial collateral for this loan.

At December 31, 2023, loans to current and former officers totaling \$395, including accrued interest, are included in Other Assets on the consolidated statement of financial position (\$2,203 at December 31, 2022). All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities, termination of employment, and maturity. All share purchase loans are full recourse and interest is due and payable semi-annually. During the year, interest payments of \$22 (2022: \$8) was received.

NOTE 22 FINANCIAL INSTRUMENTS**Financial risk management**

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

Market Risk**Commodity prices and supplies**

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

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

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

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

in millions of US dollars	Earnings before tax	
	2023	2022
Natural and synthetic rubber	(7.27)	(8.19)
Chemicals (Rubber mixing)	(4.55)	(4.42)
Steel	(3.08)	(2.82)
Carbon black	(3.10)	(3.60)
Silicone	(0.67)	(0.83)
	(18.67)	(19.86)

AirBoss of America Corp.

Notes to CFS (cont'd)

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:

in millions of dollars	Earnings before tax	
	2023	2022
Sales (1)	(1.7)	(1.9)
Purchases (2)	6.2	6.1

(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 February and May 2023, the Company entered into interest rate swap agreements for a combined notional amount of \$46,000, maturing in February and May 2025. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD Secured Overnight Financing Rate ("SOFR") and a weighted average fixed rate of 4.118%.

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 London Interbank Offered Rate ("LIBOR") and the fixed rate of 0.265%.

During 2023, interest recovery on the swap agreement was \$381 (2022: \$310).

At December 31, 2023, the fair value of this agreement, representing a gain of \$252 (2022: \$52), is included in loans and borrowings on the consolidated statement of financial position. The change in the fair value, representing a gain of \$200 (2022: \$4), 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	2023	2022
Fixed rate instruments		
Financial assets	395	2,203
Financial liabilities	(13,638)	(14,955)
Variable rate instruments		
Financial liabilities	(117,454)	(128,687)
Total	(130,697)	(141,439)

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 earnings before tax:

	100bp increase	100bp decrease
2023		
Variable rate instruments	(1,069)	1,069
2022		
Variable rate instruments	(1,053)	1,053

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

Notes to CFS (cont'd)

Credit Risk

The Company held cash and cash equivalents of \$28,989 at December 31, 2023 (2022: \$18,552), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A- to AA-, based on Standard and Poor's ratings.

The Company sells its products to a variety of customers under various payment terms in the normal course of its operations and therefore is exposed to credit risks. The Company's exposure to credit risk is influenced by general economic conditions, the default risk of the industry and the relative concentration of business. A majority of the Company's trade receivables are derived from sales to distributors and manufacturers who have been transacting with the Company for over five years. In monitoring credit risk, the Company considers industry, volume and aging trends (see note 4), maturity and other relevant factors. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. Purchase limits established for certain accounts represent the maximum open balance permitted without approval from the Co-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% (2022: 9%) of consolidated net sales in 2023. Five customers represented 31% (2022: 33%) of consolidated net sales in 2023. 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 creditworthy 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 \$28,989 and had drawn \$119,100 against its \$250,000 revolving credit facilities (2022: cash of \$18,552 and had drawn \$130,813).

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, 2023	Amortized cost	Fair value through profit and loss	Total carrying amount	Total fair value
Cash and cash equivalents	28,989	–	28,989	28,989
Trade and other accounts receivable	73,237	–	73,237	73,237
Interest rate swap	–	252	252	252
Foreign exchange hedge	–	497	497	497
Share purchase loans	395	–	395	395
Total financial assets	102,621	749	103,370	103,370
Trade and other payables	67,659	–	67,659	67,659
Share price hedge	–	403	403	403
Loans and borrowings	131,344	–	131,344	131,091
Contingent consideration	–	2,652	2,652	2,652
Total financial liabilities	199,003	3,055	202,058	201,805

AirBoss of America Corp.

Notes to CFS (cont'd)

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 purchase loans	2,203	–	2,203	2,203
Share price hedge	–	223	223	223
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

The fair values of the share purchase loans and revolving line of credit have been based on market interest rate (level 2) in 2023 and 2022. 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 2023 and 2022. There were no transfers between levels of the fair value hierarchy in 2023 and 2022.

Capital Management

The Company has defined its capital as follows:

December 31	2023	2022
Loans and borrowings	131,092	143,642
less: leases included in loans and borrowings	(13,890)	(15,007)
less: cash and cash equivalents	(28,989)	(18,552)
Net debt	88,213	110,083
Shareholders' equity	148,857	196,997
	237,070	307,080

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 20.5% 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.

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 Co-Chief Executive Officer,
AirBoss of America Corp.
Aurora, Ontario



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



Stephen Ryan⁽²⁾
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 Thursday, May 9, 2024
at 9:00am at: AirBoss Rubber Solutions
101 Glasgow Street, Kitchener, Ontario

CORPORATE OFFICE

AirBoss of America Corp.

16441 Yonge Street
Newmarket, Ontario, Canada L3X 2G8
Telephone: 905-751-1188
Facsimile: 905-751-1101

Chairman and Co-Chief Executive Officer:
P. G. (Gren) Schoch

President and Co-Chief Executive Officer:
Chris Bitsakakis

Chief Financial Officer:
Frank Ientile



