AIRBOSS OF AMERICA CORP.
2019 FIRST QUARTER
INTERIM REPORT

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

The following Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations of AirBoss of America Corp. ("AirBoss" or the "Company") has been prepared as of May 8, 2019 and should be read in conjunction with the Unaudited Interim Condensed Consolidated Financial Statements and Notes for the three month period ended March 31, 2019 and the MD&A and Audited Consolidated Financial Statements and Notes for the year ended December 31, 2018. The Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The Audit Committee and Board of Directors have reviewed and approved the contents of this MD&A, the Financial Statements and the first quarter press release. All dollar amounts are shown in thousands of US dollars, except per share amounts, unless otherwise specified. Additional information regarding the Company, including its Annual Information Form, can be found on SEDAR at www.sedar.com and on the Company's website at www.airbossofamerica.com.

FORWARD-LOOKING INFORMATION

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

Statements containing forward-looking information are necessarily based upon a number of opinions, estimates and assumptions that, while considered reasonable by management at the time the statements are made, are inherently subject to significant business, economic and competitive risks, uncertainties and contingencies. AirBoss cautions that such forward-looking information involves known and unknown contingencies, uncertainties and other risks that may cause AirBoss' actual financial results, performance or achievements to be materially different from its estimated future results, performance or achievements expressed or implied by the forward-looking information. Numerous factors could cause actual results to differ materially from those in the forward-looking information, including without limitation: impact of general economic conditions; dependence on key customers; cyclical trends in the tire and automotive, construction, mining and retail industries; sufficient availability of raw materials at economical costs; weather conditions affecting raw materials, production and sales; AirBoss' ability to maintain existing customers or develop new customers in light of increased competition; AirBoss' ability to successfully integrate acquisitions of other businesses and/or companies or to realize on the anticipated benefits thereof; changes in accounting policies and methods, including uncertainties associated with critical accounting assumptions and estimates; changes in the value of the Canadian dollar relative to the US dollar; changes in tax laws and potential litigation; ability to obtain financing on acceptable terms; environmental damage and non-compliance with environmental laws and regulations; potential product liability and warranty claims and equipment malfunction. This list is not exhaustive of the factors that may affect any of AirBoss' forward-looking information.

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

Q1 2019 Highlights

(In US dollars)

- Consolidated net sales and EBITDA increased by 2.5% and 5.0% to $82.6 million and $7.9 million, respectively
- Quarterly dividend paid of CAD $0.07 per common share
- Basic and diluted earnings per common share of $0.13 and $0.12, respectively

Selected Financial Information

In thousands of US dollars, except share data

Three months ended March 31 (unaudited)	**2019**	2018
Financial results:		
Net sales	82,575	80,549
Net income	2,926	3,198
Net income per share (US$)		
– Basic	0.13	0.14
– Diluted	0.12	0.14
EBITDA[1]	7,895	7,518
Net cash provided by operating activities	(2,259)	(1,531)
Dividends declared per share (CAD $)	0.07	0.07
Capital additions	3,234	1,616
Financial position:	**March 31, 2019**	**December 31, 2018**
Total assets	240,048	232,528
Term loan and other debt[2]	70,529	62,956
Shareholders' equity	122,284	121,483
Outstanding shares (#) *	23,392,442	23,392,442
** at May 8, 2019*		

[1]Non-IFRS Financial Measures

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

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

EBITDA is a non-IFRS financial measure directly derived from the consolidated financial statements but does not have a standardized meaning prescribed by IFRS and is not necessarily comparable to a similar measure presented by other issuers.

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

A reconciliation of net income to EBITDA is presented below:

Three months ended March 31 (unaudited)

In thousands of US dollars	**2019**	2018
EBITDA:		
Net Income	**2,926**	3,198
Finance costs	**956**	499
Depreciation and amortization, including loss on disposal	**3,032**	2,751
Income tax expense	**981**	1,070
EBITDA	**7,895**	7,518

[2]Term loan and other debt as at March 31, 2019, includes $8,293 of lease liabilities related to the adoption of IFRS 16, Leases (see Significant Accounting Policies).

RESULTS OF OPERATIONS - For the period ended March 31, 2019 compared to 2018

NET SALES

Consolidated net sales for the three month period ended March 31, 2019 increased by 2.5% to $82,575 compared to the same period in 2018, with increases in the Rubber Solutions segment that were partly offset by decreases in Engineered Products. In the Engineered Products segment, increased net sales in the defense business were more than offset by lower net sales in the anti-vibration business (formerly referred to as the automotive business), for reasons outlined below.

Three months ended March 31 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Total
Net Sales	**2019**	**39,102**	**43,473**	**82,575**
	2018	36,078	44,471	80,549
Increase (decrease) $		3,024	(998)	2,026
Increase (decrease) %		8.4	(2.2)	2.5

Rubber Solutions

For the three month period ended March 31, 2019, net sales for Rubber Solutions increased by 8.4%, to $39,102, from $36,078 in the comparable period in 2018. The growth in net sales was due to volume (measured in pounds shipped) increasing by 7.2% and raw material costs increasing by approximately 6.7%, which resulted in price increases to customers. The growth in net sales was primarily in the conveyor belt, industrial and mining sectors, which was partly offset by lower net sales in the oil and gas sector.

Tolling volumes for the three month period ended March 31, 2019 increased by 16.8% compared to the same period in 2018. The increase was in conventional tolling applications, which was partly offset by a decrease in niche tolling. Non-tolling volumes for the three-month period ended March 31, 2019 were up by 4.4% compared to the same period in 2018.

Engineered Products

Net sales in the Engineered Products segment for the three month period ended March 31, 2019 decreased by 2.2%, to $43,473 from $44,471 in the comparable period in 2018. Net sales were down in the anti-vibration business and were partly offset by higher net sales in the defense business compared to the same period in 2018.

Net sales in the anti-vibration business decreased by 7.5% for the three month period ended March 31, 2019, compared to the same period in 2018. The decrease was across most product lines and in particular dampers, bushings and spring insulators. These were partly offset by higher demand in grommets and induction bonding applications.

Net sales in the defense business increased by 13.7% for the three-month period ended March 31, 2019, compared to the same period in 2018. The growth in net sales was principally in the boots and glove product lines, which was partly offset by decreases in filters, powered air purifying respirators ("PAPRs") and masks.

GROSS PROFIT

For the three month period ended March 31, 2019, consolidated gross profit decreased by $259, to $12,406, compared to the same period in 2018. As a percentage of net sales, gross profit decreased from 15.7% to 15.0%. These decreases were primarily due to lower net sales in the anti-vibration business within the Engineered Products segment.

Three months ended March 31 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Total
Gross Profit	**2019**	**6,830**	**5,576**	**12,406**
	2018	5,431	7,234	12,665
Increase (decrease) $		1,399	(1,658)	(259)
% of net sales	**2019**	**17.5**	**12.8**	**15.0**
	2018	15.1	16.3	15.7

Rubber Solutions

Gross profit at Rubber Solutions for the three month period ended March 31, 2019 increased by 25.8% to $6,830 (17.5% of net sales) from $5,431 (15.1% of net sales) in the comparable period in 2018. The increase was principally due to higher volume, for reasons discussed above, and lower conversion costs related to labour and overhead.

Engineered Products

Gross profit in the Engineered Products segment for the three month period ended March 31, 2019 was $5,576 (12.8% of net sales) down $1,658 from $7,234 (16.3% of net sales) in the comparable period in 2018. The decreases in gross profit and gross profit as a percentage of net sales were due to an unfavourable mix and lower net sales in the anti-vibration business, which was partly offset by higher gross profit in the defense business as a result of increased net sales.

OPERATING EXPENSES

Consolidated operating expenses for the three month period ended March 31, 2019 decreased by $355, primarily due to a foreign exchange gain (compared to a loss in the comparative period in 2018) resulting in a favourable net change of $767 and lower research and development costs. These decreases were partly offset by higher administration costs and a $250 provision to cover costs associated with a fire that occurred at the Scotland Neck, North Carolina facility in January 2019. As a percentage of net sales, operating expenses for the three month period ended March 31, 2019 decreased to 9.1% from 9.8% in the same period in 2018.

Three months ended March 31 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	**2019**	**2,607**	**4,246**	**690**	**7,543**
	2018	2,040	4,376	1,482	7,898
Increase (decrease) $		567	(130)	(792)	(355)
% of net sales	**2019**	**6.7**	**9.8**	**N/A**	**9.1**
	2018	5.7	9.8	N/A	9.8

Rubber Solutions

Rubber Solutions operating expenses for the three month period ended March 31, 2019 increased by $567 to $2,607. The increase was primarily due to the $250 provision for the fire at our Scotland Neck, North Carolina facility in January 2019 and increased administration costs. Production at the Scotland Neck facility resumed in February 2019 and while estimated costs to return the plant to pre-fire activity are being finalized, the Company expects to be in a position to recover these costs, including business interruption losses, based on the coverage within its insurance policies.

Engineered Products

Engineered Products operating expenses for the three month period ended March 31, 2019 decreased by $130 to $4,246. The change was primarily due to lower administration and research and development costs.

Unallocated Corporate Costs

Unallocated corporate costs for the three month period ended March 31, 2019 decreased by $792 to $690. The decrease is due to a foreign exchange gain (compared to a loss in the comparative period) resulting in a favourable net change of $824.

FINANCE COSTS

Three months ended March 31 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Finance costs	**2019**	**1,067**	**89**	**(200)**	**956**
	2018	1,170	—	(671)	499
Increase (decrease) $		(103)	89	471	457
% of net sales	**2019**	**2.7**	**0.2**	**N/A**	**1.2**
	2018	3.2	—	N/A	0.6

Finance costs for the three month period ended March 31, 2019 were $956 (2018: $499) due to an unrealized mark-to-market loss on the interest rate swap (compared to a gain in the comparative period) resulting in a unfavourable net change of $424, partially offset by increased gains on the settlement of the interest rate swap of $46. In addition, finance costs for the three month period ended March 31, 2019 included $98 of interest expense from leases related to the adoption of IFRS16. The impact from the adoption of IFRS16 is discussed below in Significant Accounting Policies.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $981 in the three month period ended March 31, 2019 (2018: $1,070) for an effective income tax rate of 25.1% (25.1% in 2018).

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

NET INCOME AND EARNINGS PER SHARE

Net income totaled $2,926 for the three month period ended March 31, 2019, compared to $3,198 for the comparable period in 2018. The basic and fully diluted net earnings per share in the quarter was $0.13 and $0.12, respectively (2018 - $0.14 basic and fully diluted).

The decrease for the three month period ended March 31, 2019, compared to the comparable period in 2018, was primarily attributable to a decrease in gross profits and an increase in finance costs for the reasons discussed above.

QUARTERLY INFORMATION

In thousands of US dollars			Net income per share	
Quarter Ended	Net Sales	Net Income	Basic	Diluted
2019				
March 31, 2019	**82,575**	**2,926**	**0.13**	**0.12**
2018				
December 31, 2018	76,484	1,331	0.06	0.06
September 30, 2018	77,773	1,347	0.06	0.06
June 30, 2018	81,797	2,660	0.11	0.11
March 31, 2018	80,549	3,198	0.14	0.14
2017				
December 31, 2017	74,214	3,772	0.17	0.16
September 30, 2017	71,837	2,804	0.12	0.12
June 30, 2017	73,877	3,180	0.14	0.14

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its remaining 2019 operating cash requirements, including required working capital investments, capital expenditures and scheduled debt repayments from cash on hand, cash flow from operations and its committed borrowing facilities. The Company's operating revolving loan facility provides financing up to $60 million (2018: $60 million). No amount was drawn against this facility at March 31, 2019.

For the three month period ended March 31, 2019, cash of $2,259 was used by operations, (2018: $1,531), $3,234 was used in investing activities (2018: $1,616), and $2,512 was used in financing activities (2018: $1,720). Cash and cash equivalents decreased by $7,984 from $17,862 to $9,878, adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

For the three month period ended March 31, 2019, cash used by operating activities increased $728 compared to the same period in 2018. The increase was due to $408 more cash used for working capital, lower non-cash expenses of $916 which were partially offset by lower tax payments of $871 and net income decreasing by $272.

Cash used for working capital for the three month period ended March 31, 2019 increased to $8,159 (2018: $7,751) as a result of the following factors:

- Cash used for accounts receivable was $8,203; of which $2,433 was attributable to Rubber Solutions which was consistent with higher net sales, and a $5,770 increase at Engineered Products due to timing of collections and higher sales in the defense business;
- Cash used for Inventory was $731; primarily from a $1,836 increase at Engineered Product's anti-vibration business due to timing of delivery schedules and higher safety stocks, partially offset by a $1,105 decrease at Rubber Solutions primarily reversing a buildup of inventory at December 31, 2018 in anticipation of increased shipments in early January;
- Cash from prepaid expenses was $48;
- Cash from accounts payable was $727 due to timing of payments.

Investing Activities

Property, Plant and Equipment

For the three month period ended March 31, 2019, the following investments were made:

- Rubber Solutions invested $2,495 in property plant and equipment. Of this, $477 was invested in growth initiatives and the remaining spend was to replace existing property, plant and equipment; and
- Engineered Products invested $450 in property plant and equipment. Of this, $148 was invested in growth initiatives, $126 on cost savings initiatives, and the remaining spend was to replace existing property, plant and equipment.

Intangible Assets

For the three month period ended March 31, 2019, the Company invested $289 in intangible assets primarily due to capitalizing development costs for enterprise reporting software.

Financing activities

The Company's current credit facility is comprised of a $60 million revolving facility, a term loan of $75 million (consolidating the two prior outstanding acquisition financing loans with interest at LIBOR plus applicable margins from 175 to 275 basis points, depending on covenants) and an accordion feature of up to an additional $50 million of availability, upon the satisfaction of customary conditions for such features. The revolving credit facility and term loan mature in December 2020.

During March 2019, the calculation of one of the loan covenants on its revolving and term loan credit facilities was amended on a prospective basis.

Deferred financing fees, less accumulated amortization have been deducted against the term loan for presentation purposes. The amortization period of deferred financing fees is 5 years and reported as finance costs.

During the quarter, the Company made principal repayments of $938 (2018: $1,003) pursuant to the term loans under the credit facility.

The Company paid dividends of $1,200 during the quarter (2018: $1,289).

Government assistance

During the first quarter of 2019, the Company recognized grants of $18 (2018: $58) to support certain initiatives which were offset against expenses.

Scientific research and investment tax credits of $115 (2018: $110) were recognized in the quarter, research and development costs were reduced accordingly.

Dividends

A quarterly dividend of CAD $0.07 per share was declared on March 12, 2019 and paid on April 15, 2019. Total annual dividends declared during 2018 were CAD $0.28 per common share.

Outstanding shares

As at May 8, 2019 the Company had 23,392,442 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

During the first quarter of 2019, the Company paid rent for the corporate office of CAD $45 (2018: CAD $45) to a company controlled by the Chairman of the Company.

During the first quarter of 2019, the Company paid fees for the use of a facility in South Carolina of approximately $8 (2018: $6); to a company in which the Chairman is an officer.

During 2014, the Company provided a share purchase loan of CAD $1,000 to the President to purchase common shares of the Company. This loan is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or November 24, 2019. During 2016, the Company provided a share purchase loan of CAD $250 to the Chief Financial Officer. This loan is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or December 20, 2021. In the first quarter of 2018, the Company provided a share purchase loan of CAD $500 to the Chief Operating Officer. This loan is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or March 28, 2023. All share purchase loans bear interest at 1% annually with full recourse and interest is due and payable semi-annually. In total, 161,300 shares of the Company having a fair value of $984 were pledged as collateral on these three loans. At March 31, 2019, the promissory notes of $1,314, including accrued interest of $5, were included in other assets. During the quarter, interest of $nil (2018: $nil) was paid.

SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies in Note 3 to the annual consolidated financial statements for the year ended December 31, 2018, have been applied consistently to all periods presented in these interim condensed consolidated financial statements for the period ended March 31, 2019.

Recently adopted accounting standards and policies

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

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

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

Definition of a lease

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

As a lessee

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

In thousands of US dollars	**Property**	**Equipment**	**Vehicles**	**Total**
Balance at January 1, 2019	7,020	342	125	7,487
Balance at March 31, 2019	6,749	324	119	7,192

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

Significant accounting policies

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

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

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

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

Transition

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

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

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impact on financial statements

Impact on transition

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

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

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

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

Impact on the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognized $6,914 of right-of-use assets and $8,293 of lease liabilities as at March 31, 2019.

Also in relation to those leases under IFRS 16, the Company has recognized depreciation and interest costs, instead of operating lease expense. During the three-months ended March 31, 2019, the Company recognized $284 of depreciation charges and $98 of interest costs from these leases.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

FINANCIAL INSTRUMENTS

Foreign exchange hedge

At March 31, 2019, the Company had contracts to sell USD $14,043 from April 2019 to October 2019 for Canadian dollars ("CAD") $18,500. The fair value of these contracts, representing an unrealized loss of $198, are included in trade and other payables, including derivatives on the statement of financial position. For the quarter ended March 31, 2019, the unrealized changes in fair value, representing a gain of $599 (2018: loss of $556), are recorded on the statement of profit as other income (expense).

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

Interest rate swap

During the first quarter of 2017, the Company entered into an interest rate swap agreement for a notional amount of $35 million. ($30.1 million as at March 31, 2019) amortizing down to $24.3 million at maturity. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%. The swap agreement matures on December 10, 2020.

During the first quarter of 2019, the interest income on the swap agreement was $59 (2018: expense of $13).

At March 31, 2019, the fair value of this agreement, representing a gain of $283, is included in loans and borrowings on the statement of financial position. For the quarter ended March 31, 2019, the change in the fair value, representing a loss of $151 (2018: gain of $273), is recorded on the statement of profit as finance costs.

At December 31, 2018, the fair value of this agreement, representing a gain of $434, was included in loans and borrowings on the statement of financial position.

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

OVERVIEW

The first quarter of 2019 marked the second straight quarter-over-quarter increase in consolidated net sales and EBITDA. Relative to the fourth quarter of 2018, consolidated net sales increased 8.0% and EBITDA increased 37.7% reflecting the positive impact of investments in continuous improvement and capital expenditure initiatives.

Management expects the increased volumes experienced in the Rubber Solutions segment, combined with the gains from the operational improvement initiatives which have been completed to date, will continue to deliver strong results for the remainder of 2019. Management also remains focused on the previously announced expansions at its Scotland Neck, NC and Kitchener, ON facilities and the expected operational efficiencies and improved profitability that will be generated, particularly in our growing white and colour portfolio.

In the Engineered Product's anti-vibration business, previously referred to as the automotive business, management continues to expect improved results in the second half of 2019 from the continuous improvement initiatives which are being undertaken. In the defense business, we expect to continue seeing positive results and new contract award opportunities in 2019. Given the nature of this business, there is some uncertainty to the timing and size of orders as new contracts are awarded and they enter into full rate production

May 8, 2019

Gren Schoch
Chairman and Chief Executive Officer

Daniel Gagnon
Chief Financial Officer

Notice of Disclosure of Non-Auditor Review of Interim Financial Statements

For the three month periods ended March 31, 2019 and March 31, 2018.

Pursuant to Ontario Securities Legislations' National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company for the interim periods ended March 31, 2019 and March 31, 2018 have been prepared in accordance with IAS 34 Interim Financial reporting and are the responsibility of the Company's management.

The Company's independent auditors, KPMG LLP, have not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants Canada for a review of interim financial statements by an entity's auditor.

Dated this May 8, 2019

Interim Condensed Consolidated Statement of Financial Position
Unaudited

In thousands of US dollars	*Note*	**March 31, 2019**	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents		**9,878**	17,862
Trade and other receivables	*4*	**65,475**	57,080
Prepaid expenses		**4,351**	4,806
Inventories	*5*	**40,834**	39,691
Current income taxes receivable	*12*	**1,176**	2,216
Total current assets		**121,714**	121,655
Non-current assets			
Property, plant and equipment		**67,150**	59,243
Intangible assets		**50,174**	50,634
Other assets	*6*	**1,010**	996
Total non-current assets		**118,334**	110,873
Total assets		**240,048**	232,528
LIABILITIES			
Current liabilities			
Loans and borrowings	*7*	**5,295**	3,794
Trade and other payables, including derivatives	*8*	**41,833**	41,561
Provisions	*9*	**210**	174
Total current liabilities		**47,338**	45,529
Non-current liabilities			
Loans and borrowings	*7*	**65,234**	59,162
Employee benefits	*14*	**480**	474
Provisions	*9*	**421**	580
Deferred income tax liabilities	*12*	**4,291**	5,300
Total non-current liabilities		**70,426**	65,516
Total liabilities		**117,764**	111,045
EQUITY			
Share capital	*10*	**39,579**	39,579
Contributed surplus	*10*	**1,180**	1,157
Retained earnings		**81,525**	80,747
Total equity		**122,284**	121,483
Total liabilities and equity		**240,048**	232,528

The notes on pages 16 to 25 are an integral part of these interim condensed consolidated financial statements.

On behalf of the Board

P.G. Schoch
Director

Robert L. McLeish
Director

Interim Condensed Consolidated Statement of Profit and Comprehensive Income

Unaudited

For the three month periods ended March 31 *In thousands of US dollars*	*Note*	**2019**	2018
Net Sales		**82,575**	80,549
Cost of sales	*5*	**(70,169)**	(67,884)
Gross profit		**12,406**	12,665
General and administrative expenses		**(6,185)**	(5,610)
Selling and marketing expenses		**(1,300)**	(1,370)
Research and development expenses	*13*	**(446)**	(537)
Other income (expenses)		**388**	(381)
		(7,543)	(7,898)
Results from operating activities		**4,863**	4,767
Finance costs	*7,14*	**(956)**	(499)
Profit before income tax		**3,907**	4,268
Income tax expense	*12*	**(981)**	(1,070)
Profit and total comprehensive income for the period		**2,926**	3,198
Earnings per share			
Basic	*11*	**0.13**	0.14
Diluted	*11*	**0.12**	0.14

The notes on pages 16 to 25 are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Changes in Equity
Unaudited

		Attributable to equity holders of the Company			
In thousands of US dollars	*Note*	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance at January 1, 2018		37,860	2,067	77,234	117,161
Profit and total comprehensive income for the period		—	—	3,198	3,198
Contributions by and distributions to owners					
Stock options expensed		—	46	—	46
Stock options exercised		1,782	(801)	—	981
Share repurchases		(17)	—	—	(17)
Dividends to equity holders		—	—	(1,280)	(1,280)
Total contributions by and distributions to owners		1,765	(755)	(1,280)	(270)
Balance at March 31, 2018		39,625	1,312	79,152	120,089
Balance at January 1, 2019		39,579	1,157	80,747	121,483
Impact of change in accounting policy	3	—	—	(904)	(904)
Adjusted balance at January 1, 2019		39,579	1,157	79,843	120,579
Profit and total comprehensive income for the period		—	—	2,926	2,926
Contributions by and distributions to owners					
Stock options expensed		—	23	—	23
Dividends to equity holders		—	—	(1,244)	(1,244)
Total contributions by and distributions to owners		—	23	(1,244)	(1,221)
Balance at March 31, 2019		39,579	1,180	81,525	122,284

The notes on pages 16 to 25 are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Cash Flows

Unaudited

For the three month period ended March 31 In thousands of US dollars	*Note*	**2019**	2018
Cash flows from operating activities			
Profit for the three month period ended March 31		**2,926**	3,198
Adjustments for:			
Depreciation		**2,283**	1,956
Amortization of intangible assets		**749**	795
Finance costs	*7,14*	**956**	499
Unrealized foreign exchange losses (gains)		**(546)**	579
Share-based payment expense	*9,10*	**88**	525
SRED tax credits		**(115)**	(110)
Current income tax expense	*12*	**1,706**	974
Deferred income tax expense (recovery)	*12*	**(725)**	96
Other		**(8)**	(10)
		7,314	8,502
Change in inventories		**(731)**	(2,145)
Change in trade and other receivables		**(8,203)**	(5,406)
Change in prepaid expenses		**48**	(202)
Change in trade and other payables		**727**	13
Change in provisions	*9*	**—**	(11)
Net change in non-cash working capital balances		**(8,159)**	(7,751)
Interest paid		**(727)**	(724)
Income tax paid		**(687)**	(1,558)
Net cash provided by operating activities		**(2,259)**	(1,531)
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(2,945)**	(1,299)
Acquisition of intangible assets		**(289)**	(317)
Net cash used in investing activities		**(3,234)**	(1,616)
Cash flows from financing activities			
Repayment of borrowings		**(1,312)**	(1,003)
Exercise of stock options (net of withholding taxes)		**—**	981
Issuance of share purchase loans		**—**	(392)
Share repurchases		**—**	(17)
Dividends paid	*10*	**(1,200)**	(1,289)
Net cash used in financing activities		**(2,512)**	(1,720)
Net decrease in cash and cash equivalents		**(8,005)**	(4,867)
Cash and cash equivalents at January 1		**17,862**	17,748
Effect of exchange rate fluctuations on cash held		**21**	(33)
Cash and cash equivalents at March 31		**9,878**	12,848

The notes on pages 16 to 25 are an integral part of these interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements ("CFS")

For the three month periods ended March 31, 2019 and March 31, 2018
(Amounts in thousands of US dollars ("USD"), except per share amounts, unless otherwise specified)

NOTE 1 REPORTING ENTITY

AirBoss of America Corp. is a public company listed on the Toronto Stock Exchange, incorporated and domiciled in Ontario. Its registered office is located at 16441 Yonge Street, Newmarket, Ontario, Canada. AirBoss of America Corp. and its subsidiaries are together referred to, in these interim condensed consolidated financial statements, as the "Company" or "AirBoss". The Company has operations in Canada and the US and is involved primarily in the manufacture of high quality rubber-based products to resource, military, automotive and industrial markets (see Note 15).

NOTE 2 BASIS OF PREPARATION

Statement of compliance

The interim condensed consolidated financial statements should be read in conjunction with the Company's 2018 audited annual consolidated financial statements and accompanying notes.

The interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting.

This is the first set of the Company's financial statements in which IFRS 16 has been applied. Changes to significant accounting policies are described in Note 3.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 8, 2019.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies in Note 3 to the annual consolidated financial statements for the year ended December 31, 2018, have been applied consistently to all periods presented in these interim condensed consolidated financial statements.

Recently adopted accounting standards and policies

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

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

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

Definition of a lease

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

As a lessee

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

In thousands of US dollars	Property	Equipment	Vehicles	Total
Balance at January 1, 2019	7,020	342	125	7,487
Balance at March 31, 2019	6,749	324	119	7,192

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

Significant accounting policies

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

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

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

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

Transition

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

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

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impact on financial statements

Impact on transition

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

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

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

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

Impact on the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognized $6,914 of right-of-use assets and $8,293 of lease liabilities as at March 31, 2019.

Also in relation to those leases under IFRS 16, the Company has recognized depreciation and interest costs, instead of operating lease expense. During the three-months ended March 31, 2019, the Company recognized $284 of depreciation charges and $98 of interest costs from these leases.

NOTE 4 TRADE AND OTHER RECEIVABLES

In thousands of US dollars	**March 31, 2019**	December 31, 2018
Trade receivables	**64,596**	55,858
Less: allowance for doubtful accounts	**(512)**	(399)
	64,084	55,459
Loan to Officer (note 6)	**751**	734
Other receivables	**640**	887
	65,475	57,080

Impairment losses

The aging of trade receivables at the reporting date was:

	March 31, 2019		December 31, 2018	
In thousands of US dollars	**Gross**	**Impairment**	Gross	Impairment
Within terms	**52,015**	**—**	41,196	—
Past due 0-30 days	**7,970**	**—**	10,756	—
Past due 31-120 days	**4,611**	**(512)**	3,906	(399)
	64,596	**(512)**	55,858	(399)

The continuity of the allowance for doubtful accounts was:

In thousands of US dollars	**March 31, 2019**	December 31, 2018
Balance at January 1	**(399)**	(185)
Impairment loss recognized	**(113)**	(361)
Collected	**—**	147
Balance	**(512)**	(399)

NOTE 5 INVENTORIES

In thousands of US dollars	**March 31, 2019**	December 31, 2018
Raw materials and consumables	**30,417**	28,769
Work in progress	**3,511**	3,142
Finished goods	**9,580**	9,848
Inventory in transit	**446**	787
	43,954	42,546
Provisions	**(3,120)**	(2,855)
	40,834	39,691

An inventory charge of $265 (2018: $369) was included in cost of sales for the increase in provisions.

NOTE 6 OTHER ASSETS

In thousands of US dollars	Share purchase loan	10% equity investment	Other	Total
Balance at January 1, 2018	997	313	139	1,449
Accrued interest	12	—	—	12
Interest received	(11)	—	—	(11)
New loan issuances	392	—	—	392
Effect of movements in exchange rates	(106)	—	(6)	(112)
Balance at December 31, 2018	1,284	313	133	1,730
Less: current portion (note 4)	(734)	—	—	(734)
	550	313	133	996
Accrued interest	3	—	—	3
Effect of movements in exchange rates	27	—	1	28
Balance at March 31, 2019	1,314	313	134	1,761
Less: current portion (note 4)	(751)	—	—	(751)
	563	313	134	1,010

NOTE 7 LOANS AND BORROWINGS

The Company is not in default under, nor has it breached any terms of, its syndicated credit agreement relating to its revolving and term loan credit facilities.

During March 2019, the calculation of one of the loan covenants on its revolving and term loan credit facilities was amended on a prospective basis.

During the first quarter of 2019, interest expense on the term debt was $648 (2018: $635), excluding gains and losses related to its interest rate swap agreement.

NOTE 8 DERIVATIVES NOT MEETING HEDGE ACCOUNTING CRITERIA

Foreign exchange hedge

At March 31, 2019, the Company had contracts to sell USD $14,043 from April 2019 to October 2019 for Canadian dollars ("CAD") $18,500. The fair value of these contracts, representing an unrealized loss of $198, are included in trade and other payables, including derivatives on the statement of financial position. For the quarter ended March 31, 2019, the unrealized changes in fair value, representing a gain of $599 (2018: loss of $556), are recorded on the statement of profit as other income (expense).

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

Interest rate swap

During the first quarter of 2017, the Company entered into an interest rate swap agreement for a notional amount of $35 million. ($30.1 million as at March 31, 2019) amortizing down to $24.3 million at maturity. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%. The swap agreement matures on December 10, 2020.

During the first quarter of 2019, the interest income on the swap agreement was $59 (2018: expense of $13).

At March 31, 2019, the fair value of this agreement, representing a gain of $283, is included in loans and borrowings on the statement of financial position. For the quarter ended March 31, 2019, the change in the fair value, representing a loss of $151 (2018: gain of $273), is recorded on the statement of profit as finance costs.

At December 31, 2018, the fair value of this agreement, representing a gain of $434, was included in loans and borrowings on the statement of financial position.

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

NOTE 9 PROVISIONS

In thousands of US dollars	Site restoration	Restricted stock units	Performance and Deferred stock units	Lease incentives	Total
Balance at January 1, 2018	74	1,202	366	239	1,881
Provisions accrued during the year	—	316	184	—	500
Payments during the year	—	(1,485)	—	—	(1,485)
Forfeitures during the year	—	—	(26)	—	(26)
Amortization during the year	—	—	—	(40)	(40)
Foreign exchange	—	(33)	(43)	—	(76)
Balance at December 31, 2018	74	—	481	199	754
Less: current principal due within one year	—	—	(120)	(54)	(174)
Non-current balance at December 31, 2018	74	—	361	145	580
Balance at December 31, 2018	74	—	481	199	754
Impact of change in accounting policy	—	—	—	(199)	(199)
Provisions accrued during the period	—	—	67	—	67
Forfeitures during the period	—	—	(2)	—	(2)
Foreign exchange	—	—	11	—	11
Total	74	—	557	—	631
Less: current portion due within one year	—	—	(210)	—	(210)
Non-current balance at March 31, 2019	74	—	347	—	421

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

Restricted Stock Units

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

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

During the second quarter of 2018, 150,000 fully vested restricted stock units were exercised for $1,485 in cash . No new restricted stock units were issued after the second quarter of 2018. During the first quarter of 2019, the Company did not recognize any employee costs related to the plan (2018: $316).

Performance Stock Units

The Company has issued certain executives with an aggregate of 114,908 performance stock units pursuant to the terms and conditions of the Omnibus Plan. Each performance award entitles the holder to receive on vesting a cash payment equal to the product of (a) the fair market value of a common share as of the vesting date and (b) a performance factor between 0.5 and 2.0, based on the level of achievement of predetermined performance objectives over the vesting period generally. The performance stock units vest three years following the grant date.

Performance stock units	**March 31, 2019**	December 31, 2018	March 31, 2018
January 1	**114,908**	93,333	93,333
New issuances	**—**	29,933	29,933
Forfeitures	**—**	(8,358)	—
Balance	**114,908**	114,908	123,266

During the first quarter of 2019, the Company recognized employee cost of $25 (2018: costs of $67) related to the plan.

Deferred Stock Units

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

Deferred stock units	**March 31, 2019**	December 31, 2018	March 31, 2018
January 1	**43,088**	30,005	30,005
New issuances	**13,527**	13,083	4,456
Balance	**56,615**	43,088	34,461

At March 31, 2019, independent directors held 56,615 DSUs. During the first quarter of 2019, the Company recognized as employee costs of $40 (2018: costs of $94) related to DSUs issued under the Omnibus Plan.

NOTE 10 CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital and Contributed Surplus

Issued share capital is as follows:

In thousands of shares	**March 31, 2019**	December 31, 2018	March 31, 2018
January 1	**23,392**	23,091	23,091
Exercise of stock options	**—**	342	329
Share repurchases	**—**	(41)	(2)
Balance	**23,392**	23,392	23,418

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 outstanding as at March 31

	2019	2018
Stock options granted and outstanding	**519,272**	561,815

Inputs for measurement of grant date fair values

The grant date fair values 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 stock options and assumptions

In Canadian dollars		March 2018
Fair value at grant date	$	3.11
Share price at grant date	$	12.08
Exercise price	$	11.56
Expected volatility (weighted average volatility)		31.8%
Option life (expected weighted average life)		5 years
Expected dividends		2.3%
Risk-free interest rate (based on government bonds)		2.1%

Stock option expense

During the first quarter of 2019, the Company recognized as employee costs $23 (2018: $46) relating to option grants in general and administrative expenses of the statement of profit.

Dividends

Dividends on common shares were paid to shareholders of record quarterly in 2019 and in 2018 as follows:

	2019		2018	
Shareholder of record at:	**$CAD/share**	**Date Paid**	$CAD/share	Date Paid
March 31	**0.07**	**April 15, 2019**	0.07	April 16, 2018

The dividend payable at March 31, 2019 was $1,225 (March 31, 2018: $1,271).

NOTE 11 EARNINGS PER SHARE

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

For the three month periods ended March 31 *In thousands of US dollars, except share amounts outstanding, per share amounts in US dollars*	**2019**	2018
Numerator for basic and diluted earnings per share: Net income	**2,926**	3,198
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	**23,392**	23,121
Dilution effect of stock options	**—**	12
Dilution of effect of restricted stock units	**—**	141
Dilution of effect of deferred stock units	**43**	24
Diluted weighted average number of shares outstanding	**23,435**	23,298
Net income per share: Basic	**0.13**	0.14
Diluted	**0.12**	0.14

For the three month period ended March 31, 2019, 519,272 options (2018: 529,452) 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 12 INCOME TAXES

For the three month period ended March 31 *In thousands of US dollars*	**2019**	2018
Current tax expense:		
Current period	**1,756**	974
Adjustment for prior period(s)	**(50)**	—
	1,706	974
Deferred tax expense:		
Origination and reversal of temporary differences	**(702)**	96
Adjustment for prior period(s)	**(23)**	—
	(725)	96
Total income tax expense	**981**	1,070

NOTE 13 GOVERNMENT ASSISTANCE

During the first quarter of 2019, the Company recognized grants of $18 (2018: $58) to support certain initiatives which were offset against expenses.

Scientific research and investment tax credits of $115 (2018: $110) were recognized in the quarter, research and development costs were reduced accordingly.

NOTE 14 POST RETIREMENT BENEFITS

March 31 *In thousands of US dollars*	**2019**	2018
The amounts recognized in the income statement are as follows:		
Post-retirement benefits recovery	**(1)**	(26)
Interest cost	**4**	14
Exchange differences	**10**	(16)
Expense	**13**	(28)

The current service charge was included in general and administrative expense and the interest cost is included in finance costs and exchange differences in other income (expense) in the income statement.

Defined Contribution Plan

AirBoss Flexible Products Co. ("AFP") maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were $96 (2018: $88).

Immediate Response Technologies, LLC maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were $22 (2018: $23).

AirBoss Rubber Compounding (NC) Inc. maintains a 401(k) plan for its employees. Total expenses for this plan during the period were $13 (2018: $11).

AirBoss of America Corp. maintains registered retirement savings plan and defined contribution plans for its employees. Total expenses for this plan during the period were $81 (2018: $69).

AirBoss Engineered Products Inc. employees are covered under various registered and unregistered defined contribution plans. Total expenses for these plans during the period were $54 (2018: $48).

Multi-Employer Pension Plan

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

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

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

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

During the quarter, AFP made contributions of $65 (2018: $68). The unfunded vested benefit ratio was 8.2% at December 31, 2018 (2017: 15.6%). The Steel Workers Pension Trust was in a net deficit at December 31, 2018 and AFP's portion of the deficit was unknown. The collective bargaining agreement requires that AFP contributes $0.40 for each hour worked by eligible employees during the preceding wage month.

NOTE 15 SEGMENTED INFORMATION

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

- Rubber Solutions. Includes manufacturing and distribution of rubber compounds and distribution of rubber compounding related chemicals.
- Engineered Products. Includes the manufacture and distribution of personal protection and safety products primarily for CBRN hazards and includes the manufacture and distribution of anti-vibration and noise dampening automotive parts.
- Corporate. Includes corporate activities and certain unallocated costs.

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

Inter-company amounts, which represent items purchased from different segments, have been presented within the segment disclosure and are eliminated to arrive at the consolidated amounts.

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

Information about reportable segments Three months ended March 31	Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Segment net sales	**49,474**	44,737	**43,487**	44,674	**—**	—	**92,961**	89,411
Inter-segment sales	**(10,372)**	(8,659)	**(14)**	(203)	**—**	—	**(10,386)**	(8,862)
External net sales	**39,102**	36,078	**43,473**	44,471	**—**	—	**82,575**	80,549
Depreciation and amortization includes loss on disposal of property, plant and equipment	**1,273**	1,333	**1,716**	1,402	**43**	16	**3,032**	2,751
Finance cost	**1,067**	1,170	**89**	—	**(200)**	(671)	**956**	499
Reportable segment profit (loss) before income tax	**3,156**	2,220	**1,241**	2,859	**(490)**	(811)	**3,907**	4,268
Income tax expense / (recovery)	**1,508**	1,018	**616**	723	**(1,143)**	(671)	**981**	1,070
Net Income (loss)	**1,648**	1,202	**625**	2,136	**653**	(140)	**2,926**	3,198
Reportable segment assets[1]	**94,444**	97,263	**133,856**	122,395	**11,748**	12,870	**240,048**	232,528
Reportable segment liabilities[1]	**26,630**	26,802	**23,372**	15,902	**67,762**	68,341	**117,764**	111,045
Capital additions[2]	**2,496**	869	**620**	704	**118**	43	**3,234**	1,616

[1] Comparative figures as at December 31, 2018.

[2] Comparative figures as at March 31, 2018.

Geographical segments

The Rubber Solutions and Engineered Products segments operate manufacturing facilities and sales offices in the US and Canada, selling primarily in North American markets.

In presenting information on the basis of geographical segments, segment net sales 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.

	Net Sales		Non-current assets		Non-current assets
	Three months ended March 31		March 31		December 31
In thousands of US dollars	**2019**	2018	**2019**	2018	2018
Canada	**15,102**	10,741	**45,046**	45,471	44,314
United States	**59,743**	60,460	**73,288**	67,578	66,559
Other countries	**7,730**	9,348	**—**	—	—
	82,575	80,549	**118,334**	113,049	110,873

Major customers

Net sales from one customer represented approximately 12.9% (2018: 8%) of the Company's total net sales. Five customers represented 40.2% (2018: 30%) of the Company's total net sales.

Major products

	Three months ended March 31	
In thousands of US dollars	**2019**	2018
Rubber Solutions		
Tolling	**2,395**	1,868
Mixing	**28,999**	26,833
Industrial	**7,708**	7,377
	39,102	36,078
Engineered Products		
Defense	**12,456**	10,955
Anti-vibration	**31,017**	33,516
	43,473	44,471
Total	**82,575**	80,549

NOTE 16 RELATED PARTIES

Transactions with Related Parties

During the first quarter of 2019, the Company paid rent for the corporate office of CAD $45 (2018: CAD $45) to a company controlled by the Chairman of the Company.

During the first quarter of 2019, the Company paid fees for the use of a facility in South Carolina of approximately $8 (2018: $6); to a company in which the Chairman is an officer.

During 2014, the Company provided a share purchase loan of CAD $1,000 to the President to purchase common shares of the Company. This loan is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or November 24, 2019. During 2016, the Company provided a share purchase loan of CAD $250 to the Chief Financial Officer. This loan is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or December 20, 2021. In the first quarter of 2018, the Company provided a share purchase loan of CAD $500 to the Chief Operating Officer. This loan is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or March 28, 2023. All share purchase loans bear interest at 1% annually with full recourse and interest is due and payable semi-annually. In total, 161,300 shares of the Company having a fair value of $984 were pledged as collateral on these three loans. At March 31, 2019, the promissory notes of $1,314, including accrued interest of $5, were included in other assets. During the quarter, interest of $nil (2018: $nil) was paid.

NOTE 17 RECLASSIFCATION OF COMPARATIVE AMOUNTS

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

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