AIRBOSS OF AMERICA CORP.

2022 THIRD 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 November 8, 2022 and should be read in conjunction with the Unaudited Interim Condensed Consolidated Financial Statements and Notes for the three- and nine-month period ended September 30, 2022 and the MD&A and Audited Consolidated Financial Statements and Notes for the year ended December 31, 2021. 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 third 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.airboss.com.

FORWARD-LOOKING INFORMATION

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

Statements containing forward-looking information are necessarily based upon a number of opinions, estimates and assumptions that, while considered reasonable by management at the time the statements are made, are inherently subject to significant business, economic and competitive risks, uncertainties and contingencies. AirBoss cautions that such forward-looking information involves known and unknown contingencies, uncertainties and other risks that may cause AirBoss' actual financial results, performance or achievements to be materially different from its estimated future results, performance or achievements expressed or implied by the forward-looking information. Numerous factors could cause actual results to differ materially from those in the forward-looking information, including without limitation: impact of general economic conditions, notably including its impact on demand for rubber solutions and products; dependence on key customers; global defense budgets, notably in the Company's target markets, and success of the Company in obtaining new or extended defense contracts; cyclical trends in the tire and automotive, construction, mining and retail industries; sufficient availability of raw materials at economical costs; weather conditions affecting raw materials, production and sales; AirBoss' ability to maintain existing customers or develop new customers in light of increased competition; AirBoss' ability to successfully integrate acquisitions of other businesses and/or companies or to realize on the anticipated benefits thereof; changes in accounting policies and methods, including uncertainties associated with critical accounting assumptions and estimates; changes in the value of the Canadian dollar relative to the US dollar; changes in tax laws and potential litigation; ability to obtain financing on acceptable terms; environmental damage and non-compliance with environmental laws and regulations; impact of global health situations; potential product liability and warranty claims and equipment malfunction. COVID-19 could also negatively impact the Company's operations and financial results in future periods. There is increased uncertainty associated with future operating assumptions and expectations as compared to prior periods. As such, it is not possible to estimate the impacts COVID-19 will have on the Company's financial position or results of operations in future periods. While the direct impacts of COVID-19 are not determinable at this time, the Company has a credit facility that can provide financing up to $250,000. This list is not exhaustive of the factors that may affect any of AirBoss' forward-looking information.

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

OVERALL PERFORMANCE

Recent Highlights

(in US dollars)

- Received orders of up to $40.6 million for Husky 2G Vehicles and accessories;
- Declared a quarterly dividend of C$0.10 per common share;
- Generated Adjusted EBITDA of $1.3 million; and
- Net Debt to Adjusted EBITDA ratio at September 30, 2022 ("Q3 2022") was 1.92x.

Selected Financial Information

In thousands of US dollars, except share data	Three-months ended September 30		Nine-months ended September 30	
(unaudited)	**2022**	2021	**2022**	2021
Financial results:				
Net sales	**104,682**	112,027	**359,702**	337,805
Profit (loss)	**(55,957)**	6,902	**(43,889)**	31,541
Adjusted Profit[1]	**(11,843)**	7,040	**234**	31,833
Earnings (loss) per share (US$)				
– Basic	**(2.07)**	0.26	**(1.62)**	1.17
– Diluted	**(2.07)**	0.24	**(1.62)**	1.11
Adjusted earnings (loss) per share[1] (US$)				
– Basic	**(0.44)**	0.26	**0.01**	1.18
– Diluted	**(0.44)**	0.25	**0.01**	1.12
EBITDA[1]	**(56,394)**	13,752	**(26,239)**	53,056
Adjusted EBITDA[1]	**1,271**	13,922	**31,438**	53,380
Net cash provided by (used in) operating activities	**(15,847)**	(125,723)	**(38,655)**	(136,392)
Free cash flow[1]	**(18,525)**	(130,444)	**(45,625)**	(149,391)
Dividends declared per share (CAD$)	**0.10**	0.10	**0.30**	0.27
Capital additions	**2,687**	4,724	**6,983**	17,560
Financial position:	**September 30, 2022**			December 31, 2021
Total assets	**422,323**			443,264
Debt[2]	**133,191**			80,563
Net Debt[1]	**111,861**			56,033
Shareholders' equity	**185,946**			235,148
Outstanding shares*	**27,092,041**			26,993,181
**27,092,041 at November 8, 2022*				

[1] See Non-IFRS and Other Financial Measures
[2] Debt as at September 30, 2022 and December 31, 2021 include lease liabilities of $15,546 and $17,399, respectively.

NON-IFRS AND OTHER FINANCIAL MEASURES

This MD&A is based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and Non-IFRS and Other 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 net income under IFRS.

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

	Three-months ended September 30 (unaudited)		Nine-months ended September 30 (unaudited)	
In thousands of US dollars	**2022**	2021	**2022**	2021
EBITDA:				
Profit (loss)	**(55,957)**	6,902	**(43,889)**	31,541
Finance costs	**1,282**	1,740	**3,767**	3,421
Depreciation, amortization and impairment	**5,412**	4,885	**16,401**	14,378
Income tax expense (recovery)	**(7,131)**	225	**(2,518)**	3,716
EBITDA	**(56,394)**	13,752	**(26,239)**	53,056
Write-down of inventory	**57,001**	—	**57,001**	—
AFP professional fees	**664**	—	**676**	—
Prospectus and acquisition fees	**—**	170	**—**	324
Adjusted EBITDA	**1,271**	13,922	**31,438**	53,380

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

	Three-months ended September 30 (unaudited)		Nine-months ended September 30 (unaudited)	
In thousands of US dollars	**2022**	2021	**2022**	2021
Adjusted profit:				
Profit (loss)	**(55,957)**	6,902	**(43,889)**	31,541
Write-down of inventory	**43,606**	—	**43,606**	—
AFP professional fees	**508**	—	**517**	**—**
Prospectus and acquisition fees	**—**	138	**—**	**292**
Adjusted profit	**(11,843)**	7,040	**234**	31,833
Basic weighted average number of shares outstanding	**27,092**	26,985	**27,063**	26,964
Diluted weighted average number of shares outstanding	**27,092**	28,370	**27,063**	28,305
Adjusted earnings per share (in US dollars):				
Basic	**(0.44)**	0.26	**0.01**	1.18
Diluted	**(0.44)**	0.25	**0.01**	1.12

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

In thousands of US dollars	**September 30, 2022** (unaudited)	December 31, 2021
Net Debt:		
Loans and borrowings - current	**2,259**	2,356
Loans and borrowings - non-current	**130,932**	78,207
Leases included in loans and borrowings	**(15,546)**	(17,399)
Cash and cash equivalents	**(5,784)**	(7,131)
Net Debt	**111,861**	56,033

The Company has a Net Debt to trailing twelve-month Adjusted EBITDA ratio of 1.92x (from 0.70x at December 31, 2021).

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 cash from operating activities to free cash flow is below.

	Three-months ended September 30 (unaudited)		Nine-months ended September 30 (unaudited)	
In thousands of US dollars	**2022**	2021	**2022**	2021
Free cash flow:				
Net cash provided by (used in) operating activities	**(15,847)**	(125,723)	**(38,655)**	(136,392)
Acquisition of property, plant and equipment	**(2,374)**	(4,559)	**(6,131)**	(12,302)
Acquisition of intangible assets	**(304)**	(165)	**(839)**	(706)
Proceeds from disposition	**—**	3	**—**	9
Free cash flow	**(18,525)**	(130,444)	**(45,625)**	(149,391)
Basic weighted average number of shares outstanding	**27,092**	26,985	**27,063**	26,964
Diluted weighted average number of shares outstanding	**27,092**	26,985	**27,063**	26,964
Free cash flow per share (in US dollars):				
Basic	**(0.68)**	(4.83)	**(1.69)**	(5.54)
Diluted	**(0.68)**	(4.83)	**(1.69)**	(5.54)

OVERVIEW

The Company worked diligently to address the impact of current economic conditions during the quarter, including actions to mitigate on-going global freight, labor and logistics challenges, as well as raw material price escalations. We remained focused on operational execution, growth initiatives and key investments, with strong traction for the quarter at ARS, ADG's continued focus on its opportunities pipeline, and continued progress to address the related commercial impacts to AEP. The Company remains committed to solidifying its position in the PPE, health care and survivability sectors and supporting its customers, employees and stakeholders.

Despite the challenges faced during this quarter, the Company continued to exercise risk mitigation initiatives within its supply chain, securing alternative raw material sources and remaining focused on optimization of supply chain strategies. Continued recovery of volumes remains subject to the ongoing management of stable and sustained operations of businesses globally, which remains complex and volatile, specifically considering evolving and ongoing challenges such as inflation pressure. Notwithstanding these challenges, including further constraints on our supply chain for the foreseeable future in the remainder of 2022 and into 2023, the Company believes it is positioned to capture continued opportunities during the coming quarters.

ADG remains focused on its survivability solutions platform while targeting traditional defense contracts, which could result in the execution of meaningful opportunities over the next several years. In addition, ADG continues to work with its key customers to leverage the opportunities in its pipeline, which remains robust and is expected to support growth initiatives, subject to timing as delays in the conversion of these opportunities are expected to continue through the fourth quarter of 2022. Management continues to believe that the future sourcing of PPE for first responders and healthcare professionals will remain a necessity and priority for front line workers, evidenced by the strong pipeline of PPE-related opportunities that ADG is currently pursuing.

ARS continued to see strong demand despite labor constraints that adversely affected volume in the quarter. The segment remains focused on optimizing its equipment capacity across all its locations and 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. ARS continues to leverage its scale and global supply chain management expertise to manage ongoing logistics and raw material risks while supporting new customers to drive volume and growth. The segment also continue to focus on research and development investments with its broad expertise to support enhanced collaboration with customers to develop innovative and proprietary technical solutions.

The AirBoss Engineered Products segment continued to be impacted by labor and supply chain challenges and significant raw material price increases including electronic chip shortages impacting OEM production schedules. Management continues to accelerate pricing strategies with its key customers to ensure a fair and equitable path forward and is optimistic of results materializing in the near term. The Company remains committed to addressing key challenges in this segment including margin improvement with targeted cost management, enhanced pricing strategies with raw material indexing and by fully leveraging its investments in advanced manufacturing. AEP also continued to focus on its operational improvement plan with a heightened focus on sustaining a stable hourly workforce while dealing with volume reductions in the automotive sector, as well as focus on diversification of its product lines into sectors adjacent to the automotive space.

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

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

As before, management remains dedicated to the creation of long-term value for all stakeholders through a combination of strategic initiatives that both drive organic growth and support possible accretive transactions.

RESULTS OF OPERATIONS - For the three- and nine-month periods ended September 30, 2022 compared to 2021

NET SALES

Consolidated net sales for Q3 2022 decreased by 6.6% to $104,682 compared with the three-month period ended September 31, 2021 ("Q3 2021"). This decrease was primarily attributable to ADG's delivery of nitrile gloves to the U.S. Department for Health and Human Services ("HHS") in the prior year, partly offset by the increased sales at Rubber Solutions across the majority of customer sectors.

Consolidated net sales for 2022 year-to-date increased by 6.5% to $359,702 compared with 2021 year-to-date due to increased sales at Rubber Solutions across the majority of customer sectors, partially offset by ADG's delivery of filters and nitrile gloves to HHS in the prior year, and softer volumes in the Engineered Products segment.

Three-months ended September 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Inter-segment net sales	Total
Net Sales	**2022**	**23,553**	**58,484**	**29,176**	**(6,531)**	**104,682**
	2021	52,179	39,861	28,328	(8,341)	112,027
Increase (decrease) $		(28,626)	18,623	848	1,810	(7,345)
Increase (decrease) %		(54.9)	46.7	3.0	(21.7)	(6.6)

Nine-months ended September 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Inter-segment net sales	Total
Net Sales	**2022**	**113,354**	**178,371**	**85,857**	**(17,880)**	**359,702**
	2021	154,026	118,937	88,312	(23,470)	337,805
Increase (decrease) $		(40,672)	59,434	(2,455)	5,590	21,897
Increase (decrease) %		(26.4)	50.0	(2.8)	(23.8)	6.5

AirBoss Defense Group

Net sales in the AirBoss Defense Group segment for Q3 2022 decreased by 54.9% to $23,553, from $52,179 in Q3 2021. The decrease was primarily the result of the large HHS nitrile patient examination contract in 2021.

Net sales in the AirBoss Defense Group segment for 2022 year-to-date decreased by 26.4% to $113,354, from $154,026 for 2021 year-to-date. The decrease was primarily the result of the large HHS contracts delivered in 2021.

Rubber Solutions

Net sales in the Rubber Solutions segment for Q3 2022 increased by 46.7% to $58,484, from $39,861 in Q3 2021. Volume was up 1.3%, with increases across many sectors despite continuing supply chain challenges related to raw material supply and elevated freight costs. Tolling volume was down 50.3% while non-tolling was up 13.3%. 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.

Net sales in the Rubber Solutions segment for 2022 year-to-date increased by 50.0% to $178,371, from $118,937 for 2021 year-to-date. Volume was up 7.8%, with increases across the majority of sectors and continued ramp up of most customer's operations despite some residual softness due to certain economic headwinds. Year-to-date tolling volume was down 3.5% while non-tolling was up 10.6%.

Engineered Products

Net sales in the Engineered Products segment for Q3 2022 increased by 3.0% to $29,176, from $28,328 in Q3 2021. The increase was due to a favorable mix in the SUV, light truck and mini-van platforms. This was partially offset by lower production of other automotive platforms and certain molded defense products.

Net sales in the Engineered Products segment for 2022 year-to-date decreased by 2.8% to $85,857, from $88,312 for 2021 year-to-date. The decrease was due to lower automotive volumes across many platforms and specifically in SUV, light truck and mini-van platforms compared to the same period in 2021 as the automotive sector continued to manage volume volatility given the challenges with global electronic chip shortages in addition to freight and logistics constraints. This softness is anticipated to continue into the foreseeable future.

GROSS PROFIT

Consolidated gross profit for Q3 2022 decreased by $72,813 to $(47,037), compared with Q3 2021, driven by a $57.0 million non-cash write-down at ADG related to nitrile glove inventory, the delivery of nitrile gloves to HHS in 2021, and lower volume at Engineered Products, partially offset by strong improvement at Rubber Solutions driven by higher volumes.

Consolidated gross profit for 2022 year-to-date decreased by $85,490 to $(636) compared with 2021 year-to-date, driven by the $57.0 million non-cash write-down at ADG related to nitrile gloves, the delivery of filters and nitrile gloves to HHS in 2021, the elimination of government-directed wage subsidies, and margin compression at Engineered Products due to labor, freight and raw material increases, partially offset by significant improvements at Rubber Solutions.

Three-months ended September 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Total
Gross Profit	**2022**	**(51,299)**	**8,370**	**(4,108)**	**(47,037)**
	2021	22,827	4,268	(1,319)	25,776
Increase (decrease) $		(74,126)	4,102	(2,789)	(72,813)
% of net sales	**2022**	**(217.8)**	**14.3**	**(14.1)**	**(44.9)**
	2021	43.7	10.7	(4.7)	23.0

Nine-months ended September 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Total
Gross Profit	**2022**	**(13,874)**	**26,169**	**(12,931)**	**(636)**
	2021	68,834	14,967	1,053	84,854
Increase (decrease) $		(82,708)	11,202	(13,984)	(85,490)
% of net sales	**2022**	**(12.2)**	**14.7**	**(15.1)**	**(0.2)**
	2021	44.7	12.6	1.2	25.1

AirBoss Defense Group

Gross profit at AirBoss Defense Group for Q3 2022 decreased by 324.7% to $(51,299) from $22,827 in Q3 2021. Gross profit at AirBoss Defense Group for 2022 year-to-date decreased by 120.2% to $(13,874) from $68,834 for 2021 year-to-date. The decreases were primarily the result of the $57.0 million inventory write-down, and deliveries to HHS in 2021, partially offset by favorable volume in ADG's industrial products line.

Rubber Solutions

Gross profit at Rubber Solutions for Q3 2022 increased by 96.1% to $8,370 (14.3% of net sales) from $4,268 (10.7% of net sales) in Q3 2021. This was primarily the result of improvement in non-tolling volumes, raw material pass through mechanisms, and managing controllable overhead costs, partially offset by labor challenges and logistics costs.

Gross profit at Rubber Solutions for 2022 year-to-date increased by 74.8% to $26,169 (14.7% of net sales), from $14,967 (12.6% of net sales) for 2021 year-to-date, primarily as a result of increased non-tolling volumes compared to the same period in 2021, managing controllable overhead costs, partially offset by labor and logistics costs and a decrease in government-directed subsidies.

Engineered Products

Gross profit at the Engineered Products segment for Q3 2022 decreased to $(4,108) from $(1,319) in Q3 2021. This was primarily a result of lower volumes in part due to the continued global electronic chip shortages in the automotive sector combined with a slowing economy continued raw material escalations not passed on to customers in addition to freight and logistics constraints partially offset by a continued focus on controllable operational cost containment.

Gross profit at the Engineered Products segment for 2022 year-to-date decreased to $(12,931) from $1,053 for 2021 year-to-date. This was primarily a result of a government-directed wage subsidy in 2021 and challenges associated with global electronic chip shortages in the automotive sector combined with raw material cost escalations, customer indexing constraints, freight and logistics challenges and higher related costs partially offset by a continued focus on controllable operational cost containment and managing overhead costs.

OPERATING EXPENSES

Consolidated operating expenses for Q3 2022 decreased by $2,140. The decreases were primarily due to lower stock-based compensation costs, and lower selling costs, partially offset by higher professional fees related in part to key challenges being addressed at AEP, the inclusion of ACE (which was acquired on August 31, 2021), and a larger foreign exchange loss.

Consolidated operating expenses for 2022 year-to-date decreased by $4,172. The decreases were primarily due to lower stock-based compensation costs, and lower selling costs, partially offset by the elimination of government-directed wage subsidies, the inclusion of B3 (which was acquired on May 17, 2021) and ACE, higher professional fees related in part to key challenges being addressed at AEP, and a larger foreign exchange loss.

Three-months ended September 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	**2022**	**5,725**	**3,003**	**3,379**	**2,662**	**14,769**
	2021	8,652	2,186	2,785	3,286	16,909
Increase (decrease) $		(2,927)	817	594	(624)	(2,140)
% of net sales	**2022**	**24.3**	**5.1**	**11.6**	**N/A**	**14.1**
	2021	16.6	5.5	9.8	N/A	15.1

Nine-months ended September 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	**2022**	**22,257**	**9,659**	**8,982**	**1,106**	**42,004**
	2021	22,117	6,222	7,504	10,333	46,176
Increase (decrease) $		140	3,437	1,478	(9,227)	(4,172)
% of net sales	**2022**	**19.6**	**5.4**	**10.5**	**N/A**	**11.7**
	2021	14.4	5.2	8.5	N/A	13.7

AirBoss Defense Group

AirBoss Defense Group's operating expenses for Q3 2022 decreased by $2,927 to $5,725 due to lower selling prices related to the nitrile gloves and a larger foreign exchange gain, partially offset by higher administration charges.

AirBoss Defense Group's operating expenses for 2022 year-to-date increased by $140 to $22,257 due to the inclusion of B3, higher administration costs and the elimination of government-directed wage subsidies, partially offset by lower selling expenses and a larger foreign exchange gain.

Rubber Solutions

Rubber Solutions' operating expenses for Q3 2022 increased by $817 to $3,003. The change was primarily due to the inclusion of ACE's costs for a full quarter, and higher administration costs, partially offset by a larger foreign exchange gain.

Rubber Solutions' operating expenses for 2022 year-to-date increased by $3,437 to $9,659. The change was primarily due to the inclusion of ACE's costs, higher administration costs and the elimination of government-directed wage subsidies, partially offset by a foreign exchange gain.

Engineered Products

Engineered Products' operating expenses for Q3 2022 increased by $594 to $3,379 due to higher professional fees.

Engineered Products' operating expenses for 2022 year-to-date increased by $1,478 to $8,982 due to higher professional fees, and the elimination of government-directed wage subsidies, partially offset by lower administration costs.

Unallocated Corporate Costs

Unallocated corporate costs for Q3 2022 decreased by $624 to $2,662. The decrease was principally due to lower stock-based compensation expense and lower administration costs, partially offset by higher professional fees and a larger foreign exchange loss.

Unallocated corporate costs for 2022 year-to-date decreased by $9,227 to $1,106. The decrease was principally due to lower stock-based compensation expense and lower administration costs, partially offset by higher professional fees and a larger foreign exchange loss.

FINANCE COSTS

Finance costs for Q3 2022 were $1,282 (2021: $1,740). The decrease is due to lower borrowings compared to the prior year, and gains related to the interest rate swap.

Finance costs for 2022 year-to-date were 3,767 (2021: 3,421). The increase was primarily due to borrowing to acquire nitrile patient examination glove inventory to fulfill a contract for HHS. For 2021 year-to-date. This increase was partially offset by lower interest on term debt and lower losses on the interest rate swap.

INCOME TAX EXPENSE

The Company recorded an income tax recovery of $7,131 in Q3 2022 (Q3 2021: expense of $225) for an effective income tax rate of 11.3% (3.2% in Q3 2021). The effective tax rate was higher in the current quarter primarily due to partial recognition of tax losses in Q3 2022 and a non-taxable loan forgiveness recorded in Q3 2021.

The Company recorded a 2022 year-to-date income tax recovery of $2,518 (2021: expense of $3,716) for an effective income tax rate of 5.4% (2021: 10.5%). The effective tax rate was higher in the current year primarily due to partial recognition of tax losses in 2022, utilization of tax losses in 2021 and a non-taxable loan forgiveness in Q3 2021.

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, the effect of permanent differences and the resolution of prior period tax assessments.

PROFIT AND EARNINGS PER SHARE

The loss totaled $55,957 for Q3 2022, compared with a $6,902 profit for Q3 2021, and the loss totaled $43,889 for 2022 year-to-date compared with a $31,541 profit for 2021 year-to-date. Basic and fully diluted net earnings per share in Q3 2022 were $(2.07) compared with $0.26 and $0.24, respectively, for Q3 2021. Basic and fully diluted net earnings per share for 2022 year-to-date was $(1.62) compared with $1.17 and $1.11, respectively, for 2021 year-to-date. The decreases were primarily attributable to ADG's $57.0 million inventory write-down, deliveries of filters and nitrile gloves to HHS in 2021.

QUARTERLY INFORMATION

In thousands of US dollars			Earnings per share	
Quarter Ended	Net Sales	Profit	Basic	Diluted
2022				
September 30, 2022	**104,682**	**(55,957)**	**(2.07)**	**(2.07)**
June 30, 2022	110,547	2,492	0.09	0.09
March 31, 2022	144,473	9,576	0.35	0.34
2021				
December 31, 2021	249,053	15,162	0.56	0.53
September 30, 2021	**112,027**	**6,902**	**0.26**	**0.24**
June 30, 2021	118,449	18,320	0.68	0.65
March 31, 2021	107,329	6,319	0.23	0.22
2020				
December 31, 2020	132,180	15,902	0.61	0.59

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its remaining 2022 operating cash requirements, including required working capital investments, capital expenditures and scheduled lease payments from cash on hand, cash flow from operations and its committed borrowing facilities. The Company's operating revolving loan facility provides financing up to $250,000, and $120,038 was drawn against this facility as at September 30, 2022.

During 2022 year-to-date, cash of $38,655 was used by operations (2021: $136,392), $6,970 was used by investing activities (2021: $58,997), and $44,040 was provided by financing activities (Q3 2021: $120,631). Cash and cash equivalents decreased by $1,347 from $7,131 to $5,784, adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

Cash used by operating activities decreased by $97,737 compared with 2021. The decrease was due to $119,569 less cash used for working capital needs, offset by lower non-cash expenses of $48,160 and lower profit of $75,430, partially offset by lower income tax payments of $6,348.

Cash used for working capital for 2022 increased to $57,471 (2021: $177,040) as a result of the following factors:

- Cash used for accounts receivable was $5,877, primarily due to increased sales at the Rubber Solutions segment and slower collections at Engineered Products segment, partly offset by reduced sales at AirBoss Defense Group due to collection of receivables outstanding at year end related to its delivery of nitrile gloves to HHS.
- Cash used for inventory was $29,932, primarily related to Rubber Solutions Segment for raw material safety stock and due to raw material price increases and AirBoss Defense Group's carryover inventory of nitrile gloves.
- Cash used for prepaid expenses was $2,917, primarily for deposits at Rubber Solutions to acquire raw materials.
- Cash used for accounts payable was $19,667 due to lower volumes at AirBoss Defense Group and Engineered Products segment relative to the quarter ended December 31, 2021, partially offset by increased activity at the Rubber Solutions segment.
- Cash from provisions of $922 related to the residual amount owing for a legal provision, partially offset by the payout of preferred share units and payments to former owners of acquired businesses.

Investing Activities

Property, Plant and Equipment

During 2022 year-to-date, the following investments were made:

- AirBoss Defense Group invested $1,237. $377 was invested in growth initiatives, and the balance was to replace or upgrade existing property, plant and equipment;
- Rubber Solutions invested $4,067. $618 was invested in growth initiatives, $819 in cost savings initiatives, and the balance to replace or upgrade existing property, plant and equipment;
- Engineered Products invested $827. $196 was invested in growth initiatives, $352 was invested in cost savings initiatives, and the balance to replace or upgrade existing property, plant and equipment.

Intangible Assets

During 2022 year-to-date, the Company invested $839 in intangible assets for financial reporting and productivity software.

Financing activities

In September 2021, the Company updated its credit facilities to increase revolving credit availability to $250 million from $150 million, with an accordion of $75 million (from $50 million) available upon the satisfaction of customary conditions for such features. The new facility bears interest at LIBOR plus applicable margins from 145 to 250 basis points, depending on covenants, and matures on September 23, 2026. Proceeds from the new facility were used to repay the Company's term loan and fund upfront payments related to acquisition of finished goods and other inventories, related primarily to execution on existing contracts.

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

During 2022 year-to-date, the Company paid $1,811 (2021: $1,662) of principal payments for its lease obligations.

The Company paid dividends of $6,353 during the 2022 year-to-date (2021: $5,180).

Government assistance

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

The Government of Canada provided the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") to support businesses affected by COVID-19 based on certain criteria, including demonstration of revenue declines as result of COVID-19. The Company recorded CEWS and CERS as a reduction to cost of sales and operating expenses in the consolidated statement of profit.

Scientific research and investment tax credits of $161 (2021: $227) were recognized in the quarter and research and development costs were reduced accordingly; year-to-date $492 (2021: $715).

Dividends

A quarterly dividend of CAD $0.10 per share was declared on August 4, 2022 and paid on October 17, 2022. Total annual dividends declared during 2021 were CAD $0.37 per common share.

Outstanding shares

As at November 8, 2022, the Company had 27,092,041 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

During the quarter, the Company paid $42 (2021: $42) to companies controlled by the Chairman of the Company for use of office facilities; year-to-date $127 (2021: $133).

In March 2018, the Company provided a share purchase loan of CAD $500 to the President and Chief Operating Officer that bears interest at 1%. In June 2019, the Company provided share purchase loans of CAD $300 to the Executive Vice President, General Counsel; and CAD $92 to the President and Chief Operating Officer that bear interest at 2%. The loan to the Executive Vice President, General Counsel was repaid in May 2022. In April 2022 the Company loaned $1,750 to the CEO of ADG, secured by shares of the Company, bearing interest at 1%. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities, and maturity. All loans are full recourse and interest is due and payable semi-annually. In total, 141,178 shares of the Company having a fair value of $860 were pledged as collateral on these loans. At September 30, 2022, the loans receivable of $2,191, including accrued interest, were included in Other Assets on the interim condensed consolidated statement of financial position. During the quarter, interest revenue of $1 (2021: nil) was received; year-to-date $8 (2021: $5)

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies in Note 3 to the annual consolidated financial statements for the year ended December 31, 2021, have been applied consistently to all periods presented in these interim condensed consolidated financial statements for the period ended September 30, 2022.

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 September 30, 2022, the Company had contracts to sell USD $34,818 from October 2022 to September 2023 for Canadian dollars ("CAD") $46,000. The fair value of these contracts, representing an unrealized loss of $1,257, are included in trade and other payables, including derivatives on the statement of financial position. For the quarter ended September 30, 2022, the unrealized changes in fair value, representing a loss of $1,124 (2021: $699), are recorded on the statement of profit as other income (expense); year-to-date $1,204 (2021: $1,087).

At December 31, 2022, the Company had contracts to sell USD $16,617 from January 2022 to September 2022 for CAD $21,000. The fair value of those contracts, representing an unrealized loss of $53 are included in trade and other payables, including derivatives on the statement of financial position.

Interest rate swap

In December 2021, the Company entered into an interest rate swap agreement for a notional amount of $28,125 ($24,844 as at September 30, 2022) amortizing down to $24,375 at maturity in January 2023. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 0.265%. This swap agreement replaces a previously existing swap agreement that matured in December 2021 that calculated interest based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%.

For the quarter ended September 30, 2022, interest recovery on the swap agreement was $104 (2021: expense of $12); year-to-date $32 (2021: expense of $32).

At September 30, 2022, the fair value of this agreement, representing a gain of $249, is included in loans and borrowings on the statement of financial position. For the quarter ended September 30, 2022, the change in the fair value, representing a loss of $68 (2021: $85) is recorded on the statement of profit as finance costs; year-to-date gain of $201 (2021: loss of $61).

At December 31, 2021, the fair value of this agreement, representing a gain of $48, was included in loans and borrowings on the statement of financial position.

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

November 8, 2022

Gren Schoch
Chairman and Chief Executive Officer

Frank Ientile
Chief Financial Officer

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

For the three-month periods ended September 30, 2022 and September 30, 2021.

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 September 30, 2022 and September 30, 2021 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 November 8, 2022

Interim Condensed Consolidated Statement of Financial Position

Unaudited

In thousands of US dollars	*Note*	**September 30, 2022**	December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents	*4, 5*	**5,784**	7,131
Trade and other receivables	*6*	**88,009**	82,440
Prepaid expenses		**12,957**	10,032
Inventories	*7*	**95,078**	122,147
Current income taxes receivable	*13*	**5,595**	6,136
Total current assets		**207,423**	227,886
Non-current assets			
Property, plant and equipment		**89,796**	93,148
Intangible assets	*4, 5,*	**115,009**	121,075
Deferred income tax assets	*13*	**7,457**	—
Other assets		**2,638**	1,155
Total non-current assets		**214,900**	215,378
Total assets		**422,323**	443,264
LIABILITIES			
Current liabilities			
Loans and borrowings	*8*	**2,259**	2,356
Trade and other payables, including derivatives	*9*	**84,141**	103,026
Provisions	*10*	**5,212**	2,840
Current income taxes payable	*13*	**1,063**	—
Total current liabilities		**92,675**	108,222
Non-current liabilities			
Loans and borrowings	*8*	**130,932**	78,207
Employee benefits	*15*	**521**	579
Provisions	*10*	**9,765**	17,511
Deferred income tax liabilities	*13*	**2,484**	3,597
Total non-current liabilities		**143,702**	99,894
Total liabilities		**236,377**	208,116
EQUITY			
Share capital	*11*	**87,811**	87,937
Contributed surplus	*11*	**3,538**	2,531
Retained earnings		**94,597**	144,680
Total equity		**185,946**	235,148
Total liabilities and equity		**422,323**	443,264

The notes on pages 17 to 27 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- and nine-month periods ended September 30 *In thousands of US dollars*	*Note*	**Three-month** **2022**	 2021	**Nine-Month** **2022**	 2021
Net Sales		**104,682**	112,027	**359,702**	337,805
Cost of sales	*14*	**(151,719)**	(86,251)	**(360,338)**	(252,951)
Gross profit		**(47,037)**	25,776	**(636)**	84,854
General and administrative expenses	*14*	**(12,691)**	(11,786)	**(32,089)**	(34,591)
Selling and marketing expenses		**(433)**	(3,782)	**(6,337)**	(8,890)
Research and development expenses		**(784)**	(974)	**(2,663)**	(2,576)
Other income (expenses)		**(861)**	(367)	**(915)**	(119)
		(14,769)	(16,909)	**(42,004)**	(46,176)
Results from operating activities		**(61,806)**	8,867	**(42,640)**	38,678
Finance costs	*8, 9*	**(1,282)**	(1,740)	**(3,767)**	(3,421)
Profit (loss) before income tax		**(63,088)**	7,127	**(46,407)**	35,257
Income tax recovery (expense)	*13*	**7,131**	(225)	**2,518**	(3,716)
Profit (loss) and total comprehensive income for the period		**(55,957)**	6,902	**(43,889)**	31,541
Earnings (loss) per share:					
Basic	*12*	**(2.07)**	0.26	**(1.62)**	1.17
Diluted	*12*	**(2.07)**	0.24	**(1.62)**	1.11

The notes on pages 17 to 27 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 equity
Balance at January 1, 2021		87,060	1,578	105,950	194,588
Total comprehensive income for the period		—	—	31,541	31,541
Contributions by and distributions					
Stock options expensed		—	832	—	832
Stock options exercised		938	(215)	—	723
Dividends to equity holders		—	—	(5,844)	(5,844)
Total contributions by and distributions		938	617	(5,844)	(4,289)
Balance at September 30, 2021		87,998	2,195	131,647	221,840
Balance at January 1, 2022		87,937	2,531	144,680	235,148
Total comprehensive loss for the period		—	—	(43,889)	(43,889)
Contributions by and distributions					
Stock options expensed		—	1,131	—	1,131
Stock options exercised		(622)	(71)	—	(693)
Stock options forfeited		—	(53)	—	(53)
Shares issued		496	—	—	496
Dividends to equity holders		—	—	(6,194)	(6,194)
Total contributions by and distributions		(126)	1,007	(6,194)	(5,313)
Balance at September 30, 2022		87,811	3,538	94,597	185,946

The notes on pages 17 to 27 are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Cash Flows

Unaudited

For the nine-month period ended September 30 In thousands of US dollars	Note	2022	2021
Cash flows from operating activities			
Profit (loss) for the nine-month period ended September 30		**(43,889)**	31,541
Adjustments for:			
Depreciation		**9,293**	9,751
Amortization of intangible assets		**7,108**	4,627
Write-down of inventory		**57,001**	—
Finance costs	*8, 9*	**3,767**	3,421
Government assistance loan forgiveness	*14*	**—**	(6,496)
Unrealized foreign exchange losses		**1,522**	1,487
Share-based payment (cost recoveries) expense	*10, 11*	**(5,641)**	6,151
SRED tax credits		**(492)**	(715)
Income tax (recovery) expense	*13*	**(2,518)**	3,716
Other		**(31)**	(93)
		26,120	53,390
Change in inventories		**(29,932)**	(152,110)
Change in trade and other receivables		**(5,877)**	(21,195)
Change in prepaid expenses		**(2,917)**	(11,374)
Change in trade and other payables		**(19,667)**	8,708
Change in provisions	*10*	**922**	(1,069)
Net change in non-cash working capital balances		**(57,471)**	(177,040)
Interest paid		**(3,168)**	(2,258)
Income tax paid		**(4,136)**	(10,484)
Net cash used in operating activities		**(38,655)**	(136,392)
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(6,131)**	(12,302)
Acquisition of intangible assets		**(839)**	(706)
Proceeds from asset disposals		**—**	9
Cash paid to acquire subsidiary	*4, 5*	**—**	(47,944)
Cash acquired on acquisition of subsidiary	*4, 5*	**—**	1,946
Net cash used in investing activities		**(6,970)**	(58,997)
Cash flows from financing activities			
Repayment of borrowings		**—**	(71,250)
Proceeds from operating line of credit	*8*	**54,400**	199,500
Principal payments for lease liabilities		**(1,811)**	(1,662)
Payment of debt refinancing fees		**—**	(1,505)
Issuance of share purchase loans	*17*	**(1,750)**	—
Repayment of share purchase loans	*17*	**239**	—
Exercise of options (net of withholding taxes)		**(693)**	723
Interest received on share purchase loans	*17*	**8**	5
Dividends paid	*11*	**(6,353)**	(5,180)
Net cash provided by financing activities		**44,040**	120,631
Net change in cash and cash equivalents		**(1,585)**	(74,758)
Cash and cash equivalents at January 1		**7,131**	86,970
Effect of exchange rate fluctuations on cash held		**238**	201
Cash and cash equivalents at September 30		**5,784**	12,413

The notes on pages 17 to 27 are an integral part of these interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements (“CFS”)

For the nine-month periods ended September 30, 2022 and September 30, 2021
(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 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 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 16).

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

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

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

NOTE 2 BASIS OF PREPARATION

Statement of compliance

The interim condensed consolidated financial statements should be read in conjunction with the Company’s 2021 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.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 8, 2022.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies in Note 3 to the annual consolidated financial statements for the year ended December 31, 2021, have been applied consistently to all periods presented in these interim condensed consolidated financial statements.

NOTE 4 ACQUISITION OF ACE ELASTOMER INC.

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

Acquisition-related costs

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

Consideration transferred

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

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

Identifiable assets acquired and liabilities assumed

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

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

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

Goodwill

Goodwill arising from the acquisition has been recognized as follows.

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

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

NOTE 5 ACQUISITION OF BLACKBOX BIOMETRICS, INC.

On May 17, 2021, the Company acquired B3. $7.6 million in cash was paid on closing and up to an additional $20 million will be paid in royalties over eight years based on revenues earned from B3 products.

Acquisition-related costs

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

Consideration transferred

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

In thousands of US dollars	
Cash	7,615
Contingent consideration	9,008
Total consideration transferred	16,623

Identifiable assets acquired and liabilities assumed

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

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

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

Contingent consideration was measured on a discounted cash flow basis, reflecting the present value of undiscounted expected future payments of $20 million which is the expected payout based on forecast revenues at that date, discounted using a risk adjusted discount rate of 25%.

Goodwill

Goodwill arising from the acquisition has been recognized as follows.

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

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

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

NOTE 6 TRADE AND OTHER RECEIVABLES

In thousands of US dollars	**September 30, 2022**	December 31, 2021
Trade receivables	**87,675**	80,861
Less: expected credit loss	**(748)**	(601)
	86,927	80,260
Other receivables	**1,082**	2,180
	88,009	82,440

Impairment losses

The aging of trade receivables at the reporting date was:

	September 30, 2022		December 31, 2021	
In thousands of US dollars	**Gross**	**Impairment**	Gross	Impairment
Within terms	**66,661**	**—**	64,776	—
Past due 0-30 days	**10,613**	**—**	10,520	—
Past due 31-120 days	**10,401**	**(748)**	5,565	(601)
	87,675	**(748)**	80,861	(601)

The continuity of the allowance for doubtful accounts was:

In thousands of US dollars	**September 30, 2022**	December 31, 2021
Balance at January 1	**(601)**	(750)
Revised estimate	**24**	45
Impairment loss recognized	**(245)**	(188)
Collected	**74**	292
Balance	**(748)**	(601)

NOTE 7 INVENTORIES

In thousands of US dollars	**September 30, 2022**	December 31, 2021
Raw materials and consumables	**66,157**	49,338
Work in progress	**7,120**	3,734
Finished goods	**86,486**	76,848
Inventory in transit	**214**	658
	159,977	130,578
Provisions	**(64,899)**	(8,431)
	95,078	122,147

An inventory charge of $56,468 (2021: charge of $2,582) was included in cost of sales for the increase in provisions. During the quarter ended September 30, 2022, ADG recorded a $57,001 provision against its inventory of nitrile gloves due to significant downward shifts in pricing and some gloves no longer meeting ADG's safety standards.

NOTE 8 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 credit facilities.

In September 2021, the Company updated its credit facilities to increase revolving credit availability to $250 million from $150 million, with an accordion of $75 million (from $50 million) available upon the satisfaction of customary conditions for such features. The new facility bears interest at LIBOR plus applicable margins from 145 to 250 basis points, depending on covenants, and matures on September 23, 2026. Proceeds from the new facility were used to repay the Company's term loan and fund upfront payments related to acquisition of finished goods and other inventories, related primarily to execution on existing contracts.

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

During the third quarter of 2022, interest expense under the credit facility was $1,215 (2021: $1,584), excluding gains and losses related to its interest rate swap agreement; year-to-date $2,339 (2021: $2,096).

NOTE 9 DERIVATIVES NOT DESIGNATED IN A FORMAL HEDGE RELATIONSHIP

Foreign exchange hedge

At September 30, 2022, the Company had contracts to sell USD $34,818 from October 2022 to September 2023 for Canadian dollars ("CAD") $46,000. The fair value of these contracts, representing an unrealized loss of $1,257, are included in trade and other payables, including derivatives on the statement of financial position. For the quarter ended September 30, 2022, the unrealized changes in fair value, representing a loss of $1,124 (2021: $699), are recorded on the statement of profit as other income (expense); year-to-date $1,204 (2021: $1,087).

At December 31, 2022, the Company had contracts to sell USD $16,617 from January 2022 to September 2022 for CAD $21,000. The fair value of those contracts, representing an unrealized loss of $53 are included in trade and other payables, including derivatives on the statement of financial position.

Interest rate swap

In December 2021, the Company entered into an interest rate swap agreement for a notional amount of $28,125 ($24,844 as at September 30, 2022) amortizing down to $24,375 at maturity in January 2023. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 0.265%. This swap agreement replaces a previously existing swap agreement that matured in December 2021 that calculated interest based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%.

For the quarter ended September 30, 2022, interest recovery on the swap agreement was $104 (2021: expense of $12); year-to-date $32 (2021: expense of $32).

At September 30, 2022, the fair value of this agreement, representing a gain of $249, is included in loans and borrowings on the statement of financial position. For the quarter ended September 30, 2022, the change in the fair value, representing a loss of $68 (2021: $85) is recorded on the statement of profit as finance costs; year-to-date gain of $201 (2021: loss of $61).

At December 31, 2021, the fair value of this agreement, representing a gain of $48, was included in loans and borrowings on the statement of financial position.

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

NOTE 10 PROVISIONS

In thousands of US dollars	Site restoration	PSUs and DSUs	Legal	Payable to former owners of acquired businesses	Total
Balance at January 1, 2021	74	2,557	—	—	2,631
Funds withheld on acquisition on ACE (note 4)	—	—	—	2,542	2,542
Settlement of fund withheld	—	—	—	(792)	(792)
Issued to acquire B3 (note 5)	—	—	—	9,008	9,008
Change in fair value of B3 provision	—	—	—	(289)	(289)
Provisions accrued during the period	—	8,403	—	—	8,403
Payments during the year	—	(1,069)	—	—	(1,069)
Forfeitures during the year	—	(129)	—	—	(129)
Foreign exchange	5	41	—	—	46
Balance at December 31, 2021	79	9,803	—	10,469	20,351
Less: amount due within one year	—	(829)	—	(2,011)	(2,840)
Non-current balance at December 31, 2021	79	8,974	—	8,458	17,511
Balance at December 31, 2021	79	9,803	—	10,469	20,351
Provisions accrued/(recovered) during the period	—	(6,503)	11,550	750	5,797
Payments during the period	—	(689)	(8,800)	(1,134)	(10,623)
Forfeitures during the period	—	(221)	—	—	(221)
Foreign exchange	—	(327)	—	—	(327)
Balance at September 30, 2022	79	2,063	2,750	10,085	14,977
Less: current portion due within one year	—	(1,385)	(2,750)	(1,077)	(5,212)
Non-current balance at September 30, 2022	79	678	—	9,008	9,765

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 it expects to fully settle before the end of the year.

Performance Stock Units ("PSUs")

The Company has issued certain executives with an aggregate of 274,841 PSUs 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 stock units vest three years following the grant date.

Performance stock units	**September 30, 2022**	December 31, 2021	September 30, 2021
January 1	**224,470**	201,210	201,210
New issuances	**79,367**	54,350	54,350
Forfeitures	**(11,520)**	(5,847)	—
Settlements	**(17,476)**	(25,243)	(25,243)
Balance	**274,841**	224,470	230,317

During the quarter the Company recognized cost recoveries of $639 (2021: expense $825) related to the plan; year-to-date $3,677 (2021: expense of $3,340).

Deferred Stock Units ("DSUs")

The Company has issued 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	**September 30, 2022**	December 31, 2021	September 30, 2021
January 1	**112,335**	97,060	97,060
New issuances	**12,727**	15,275	12,546
Balance	**125,062**	112,335	109,606

At September 30, 2022, independent directors held 125,062 DSUs. During the quarter the Company recognized cost recoveries of $468 (2021: expense of $229) related to DSUs issued under the Omnibus Plan; year-to-date $3,042 (2021: expense of $1,979).

NOTE 11 CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital and Contributed Surplus

Issued share capital is as follows:

In thousands of shares	**September 30, 2022**	December 31, 2021	September 30, 2021
January 1	**26,993**	26,909	26,909
Issued to employee	**20**	—	—
Exercise of stock options	**79**	84	78
Balance	**27,092**	26,993	26,987

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 September 30

In thousands of options	**2022**	2021
Stock options granted and outstanding	**1,704**	1,691

Notes to CFS (cont'd)

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

Stock option expense

During the quarter the Company recognized as costs of $451 (2021: $367) relating to option grants in general and administrative expenses of the statement of profit; year-to-date $1,078 (2021: $832).

Dividends

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

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

The dividend payable at September 30, 2022 was $1,983 (September 30, 2021: $2,123).

NOTE 12 EARNINGS PER SHARE

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

For the three- and nine-month periods ended September 30	Three-month		Nine-Month	
In thousands of US dollars, except share amounts outstanding, per share amounts in US dollars	**2022**	2021	**2021**	2021
Numerator for basic and diluted earnings per share: Net income	**(55,957)**	6,902	**(43,889)**	31,541
Denominator for basic and diluted earnings per share:				
Basic weighted average number of shares outstanding	**27,092**	26,985	**27,063**	26,964
Dilution effect of stock options	**—**	1,280	**—**	1,242
Dilution of effect of deferred stock units	**—**	105	**—**	99
Diluted weighted average number of shares outstanding	**27,092**	28,370	**27,063**	28,305
Net income per share: Basic	**(2.07)**	0.26	**(1.62)**	1.17
Diluted	**(2.07)**	0.24	**(1.62)**	1.11

For the quarter ended September 30, 2022, 1,703,609 options (2021: nil) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive; year-to-date 1,703,609 options (2021: nil).

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 13 INCOME TAXES

For the three- and nine-month periods ended September 30 *In thousands of US dollars*	Three-month **2022**	2021	Nine-Month **2022**	2021
Current tax expense (recovery):				
Current period	**1,071**	(1,080)	**4,572**	4,809
Adjustment for prior period(s)	**1,480**	9	**1,480**	(21)
	2,551	(1,071)	**6,052**	4,788
Deferred tax expense (recovery):				
Origination and reversal of temporary differences	**(8,202)**	1,296	**(7,090)**	(1,081)
Adjustment for prior period(s)	**(1,480)**	—	**(1,480)**	9
	(9,682)	1,296	**(8,570)**	(1,072)
Total income tax expense (recovery)	**(7,131)**	225	**(2,518)**	3,716

NOTE 14 GOVERNMENT ASSISTANCE

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

The Government of Canada provided the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") to support businesses affected by COVID-19 based on certain criteria, including demonstration of revenue declines as result of COVID-19. During the quarter, the Company recorded CEWS and CERS as a reduction to cost of sales and operating expenses of nil and nil, respectively, in the consolidated statement of profit and comprehensive income (2021: nil and nil); year-to-date nil and nil (2021: $2,380 and $569).

Scientific research and investment tax credits of $161 (2021: $227) were recognized in the quarter and research and development costs were reduced accordingly; year-to-date $492 (2021: $715).

NOTE 15 POST RETIREMENT BENEFITS

Defined Contribution Plan

During the quarter the Company made contributions of $358 (2021: $416) to various retirement savings and 401(k) plans for its employees (defined contribution plans); year-to-date $1,343 (2021: $1,304).

Multi-Employer Pension Plan

During the quarter AFP made contributions of $122 (2021: $78) to the Steel Workers Pension Trust, a multi-employer defined benefit pension plan; year-to-date $226 (2021: $220).

NOTE 16 SEGMENTED INFORMATION

The Company has the following reportable segments:

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

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before finance costs and income tax, as included in the internal management reports that are reviewed by the Company's CEO/Chairman, and President and Chief Operating Officer who, collectively, represent the Company's Chief Operating Decision Maker. 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.

Notes to CFS (cont'd)

Information about reportable segments three-months ended September 30	AirBoss Defense Group		Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Segment net sales	**23,553**	52,179	**58,484**	39,861	**29,176**	28,328	**—**	—	**111,213**	120,368
Inter-segment sales	**(390)**	(1,172)	**(6,096)**	(4,486)	**(45)**	(2,683)	**—**	—	**(6,531)**	(8,341)
External net sales	**23,163**	51,007	**52,388**	35,375	**29,131**	25,645	**—**	—	**104,682**	112,027
Depreciation, amortization, and impairment	**2,424**	2,452	**1,643**	1,031	**1,282**	1,341	**63**	61	**5,412**	4,885
Segment measure of profit (loss)	**(57,023)**	14,175	**5,366**	2,082	**(7,487)**	(4,104)	**(2,662)**	(3,286)	**(61,806)**	8,867
Finance costs									**1,282**	1,740
Income tax expense									**(7,131)**	225
Profit (loss)									**(55,957)**	6,902
Segment assets[1]	**164,823**	205,240	**167,775**	146,237	**87,566**	83,292	**2,159**	8,495	**422,323**	443,264
Segment liabilities[1]	**72,617**	69,571	**51,082**	32,115	**22,092**	23,565	**90,586**	82,865	**236,377**	208,116
Capital additions	**400**	1,281	**1,629**	1,474	**92**	1,777	**566**	192	**2,687**	4,724

Information about reportable segments nine-months ended September 30	AirBoss Defense Group		Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Segment net sales	**113,354**	154,026	**178,371**	118,937	**85,857**	88,312	**—**	—	**377,582**	361,275
Inter-segment sales	**(1,792)**	(3,738)	**(15,506)**	(14,239)	**(582)**	(5,493)	**—**	—	**(17,880)**	(23,470)
External net sales	**111,562**	150,288	**162,865**	104,698	**85,275**	82,819	**—**	—	**359,702**	337,805
Depreciation, amortization, and impairment	**7,335**	6,994	**4,922**	3,200	**3,957**	4,002	**187**	182	**16,401**	14,378
Segment measure of profit (loss)	**(36,131)**	46,717	**16,510**	8,745	**(21,913)**	(6,451)	**(1,106)**	(10,333)	**(42,640)**	38,678
Finance costs									**3,767**	3,421
Income tax expense									**(2,518)**	3,716
Profit (loss)									**(43,889)**	31,541
Segment assets[1]	**164,823**	205,240	**167,775**	146,237	**87,566**	83,292	**2,159**	8,495	**422,323**	443,264
Segment liabilities[1]	**72,617**	69,571	**51,082**	32,115	**22,092**	23,565	**90,586**	82,865	**236,377**	208,116
Capital additions	**1,282**	6,748	**3,776**	3,658	**828**	6,400	**1,097**	754	**6,983**	17,560

[1] Comparative figures as at December 31, 2021.

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.

	Net Sales		Net Sales		Non-current assets		Non-current assets
	Three-months ended September 30		Nine-months ended September 30		September 30		December 31
In thousands of US dollars	**2022**	2021	**2022**	2021	**2022**	2021	2021
Canada	**18,175**	11,030	**53,775**	34,261	**59,494**	60,045	62,278
United States	**73,548**	93,234	**268,205**	269,677	**155,406**	157,593	153,100
Other countries	**12,959**	7,763	**37,722**	33,867	**—**	—	—
	104,682	112,027	**359,702**	337,805	**214,900**	217,638	215,378

Major customers

Net sales to one customer represented approximately 10.9% (2021: 24.5%) of the Company's total net sales. Five customers represented 35.0% (2021: 42.9%) of the Company's total net sales.

Major products

	Three-months ended September 30		Nine-months ended September 30	
In thousands of US dollars	**2022**	2021	**2022**	2021
AirBoss Defense Group				
Defense	**11,536**	42,281	**77,632**	126,437
Industrial	**11,627**	8,726	**33,930**	23,851
	23,163	51,007	**111,562**	150,288
Rubber Solutions				
Tolling	**1,672**	1,936	**8,532**	6,579
Mixing	**50,716**	33,439	**154,333**	98,119
	52,388	35,375	**162,865**	104,698
Engineered Products	**29,131**	25,645	**85,275**	82,819
Total	**104,682**	112,027	**359,702**	337,805

NOTE 17 RELATED PARTIES

Transactions with Related Parties

During the quarter, the Company paid $42 (2021: $42) to companies controlled by the Chairman of the Company for use of office facilities; year-to-date $127 (2021: $133).

In March 2018, the Company provided a share purchase loan of CAD $500 to the President and Chief Operating Officer that bears interest at 1%. In June 2019, the Company provided share purchase loans of CAD $300 to the Executive Vice President, General Counsel; and CAD $92 to the President and Chief Operating Officer that bear interest at 2%. The loan to the Executive Vice President, General Counsel was repaid in May 2022. In April 2022 the Company loaned $1,750 to the CEO of ADG, secured by shares of the Company, bearing interest at 1%. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities, and maturity. All loans are full recourse and interest is due and payable semi-annually. In total, 141,178 shares of the Company having a fair value of $860 were pledged as collateral on these loans. At September 30, 2022, the loans receivable of $2,191, including accrued interest, were included in Other Assets on the interim condensed consolidated statement of financial position. During the quarter, interest revenue of $1 (2021: nil) was received; year-to-date $8 (2021: $5)

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