AIRBOSS OF AMERICA CORP.
2020 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 13, 2020 and should be read in conjunction with the Unaudited Interim Condensed Consolidated Financial Statements and Notes for the three- month periods ended March 31, 2020 and the MD&A and Audited Consolidated Financial Statements and Notes for the year ended December 31, 2019. 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; 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 undrawn credit facility as at March 31, 2020 that can provide financing up to $60,000. This list is not exhaustive of the factors that may affect any of AirBoss' forward-looking information.

All of the forward-looking information in this 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

Highlights for the 1st quarter

(in US dollars)

- Grew net sales by 14.1% versus the prior year period to $94.2 million;
- Increased adjusted EBITDA[2] by 14.3% versus the prior year period to $9.7 million;
- Reported diluted EPS and Adjusted diluted EPS[2] of $(0.02)/share and $0.08/share, respectively;
- Grew free cash flow[2] by $16.1 million to $10.6 million (or $0.45 per share);
- Reduced net debt[2] to TTM EBITDA from 1.85 times at December 31, 2019 to 1.5 times at March 31, 2020;
- Awarded a contract by the U.S. Federal Emergency Management Agency ("FEMA") worth up to $96.4 million for the manufacture and sale of 100,000 FlexAir™ Powered Air Purifying Respirator ("PAPR") systems, 600,000 filters, and related accessories;
- Closed the merger between AirBoss' defense business and Critical Solutions International, Inc. on January 1, 2020.

Selected Financial Information

In thousands of US dollars, except share data

Three months ended March 31 (unaudited)	**2020**	2019
Financial results:		
Net sales	**94,197**	82,575
Net income	**787**	2,926
Profit (loss) attributable to owners of the Company	**(520)**	2,926
Adjusted Profit attributable to owners of the Company[2]	**1,773**	3,480
Net income per share (US$)		
– Basic	**(0.02)**	0.13
– Diluted	**(0.02)**	0.12
Adjusted Net income per share[2] (US$)		
– Basic	**0.08**	0.15
– Diluted	**0.08**	0.15
EBITDA[2]	**7,435**	7,895
Adjusted EBITDA[2]	**9,728**	8,511
Net cash provided by operating activities	**12,409**	(2,259)
Dividends declared per share (CAD$)	**0.07**	0.07
Capital additions	**2,641**	3,234
Financial position:	**March 31, 2020**	December 31, 2019
Total assets	**292,894**	249,664
Term loan and other debt[1]	**72,642**	74,144
Total equity	**162,764**	125,979
Outstanding shares (#) *	**23,400,030**	23,392,442
** at May 13, 2020*		

[1]Term loan and other debt as at March 31, 2020 and December 31, 2019 include lease liabilities of $14,251 and $14,542, respectively.

[2]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)
Adjusted EBITDA
Adjusted Profit attributable to owners of the Company
Adjusted Net income per share
Free cash flow
Net debt

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

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

A reconciliation of net income to EBITDA and Adjusted EBITDA is presented below:

	Three-months ended March 31 (unaudited)	
In thousands of US dollars	**2020**	2019
EBITDA:		
Net Income	**787**	2,926
Finance costs	**1,169**	956
Depreciation, amortization and impairment	**4,235**	3,032
Income tax expense	**1,244**	981
EBITDA	**7,435**	7,895
ADG transaction fees	**2,293**	366
Insurance provision	**—**	250
Adjusted EBITDA	**9,728**	8,511

A reconciliation of net income to Adjusted Profit attributable to owners of the Company and Adjusted Net income per share is presented below:

	Three-months ended March 31 (unaudited)	
In thousands of US dollars	**2020**	2019
Adjusted Profit attributable to owners of the Company:		
Profit (loss) attributable to owners of the Company	**(520)**	2,926
ADG transaction fees	**2,293**	366
Insurance provision	**—**	188
Adjusted Profit attributable to owners of the Company	**1,773**	3,480
Basic weighted average number of shares outstanding	**23,392**	23,392
Diluted weighted average number of shares outstanding	**23,479**	23,435
Adjusted Net income per share: Basic	**0.08**	0.15
Diluted	**0.08**	0.15

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

In thousands of US dollars (unaudited)	**March 31, 2020**	December 31, 2019
Net debt:		
Loans and borrowings - current	**5,421**	5,358
Loans and borrowings - non-current	**67,221**	68,786
Leases included in loans and borrowings	**(14,251)**	(14,542)
Cash and cash equivalents	**(11,782)**	(121)
Net debt	**46,609**	59,481

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

	Three-months ended March 31 (unaudited)	
In thousands of US dollars	**2020**	2019
Free cash flow:		
Net cash provided by (used in) operating activities	**12,409**	(2,259)
Acquisition of property, plant and equipment	**(2,004)**	(2,945)
Acquisition of intangible assets	**(338)**	(289)
Proceeds from government grant	**500**	—
Free cash flow	**10,567**	(5,493)
Basic weighted average number of shares outstanding	**23,392**	23,392
Diluted weighted average number of shares outstanding	**23,479**	23,435
Free cash flow per share: Basic	**0.45**	(0.23)
Diluted	**0.45**	(0.23)

OVERVIEW

The COVID-19 pandemic has generated both opportunities and challenges for organizations globally, including AirBoss. The impact on first quarter results was relatively limited and, given the nature of its businesses, the Company has been able to continue operating most of its facilities in Canada and the U.S. despite the introduction of widespread government restrictions.

As certain customers, including the "Big Three" automakers, tire makers and related suppliers, elected to temporarily suspend operations in late March, AirBoss anticipated there may be an impact on its operations beginning in the second quarter of the year. Although the Rubber Solutions business remains open and operational, it did experience a decline in volumes beginning in April, which continued into early May. The timing for an improvement in volumes will be subject, at least in part, to a re-opening of businesses across North America, which could be difficult to predict. In the case of the Engineered Products business, AirBoss elected to temporarily suspend operations, pending re-starts by key customers. During this period, the Company has managed variable costs within the Engineered Products business, temporarily laying-off hourly employees and reducing working hours for salaried ones. Management has also accelerated the plan to begin producing certain molded defense products at the Auburn Hills, MI facility, which is supporting returns to work for some staff as well as continued execution against existing defense contracts. This will help utilize temporarily shuttered manufacturing capacity and help offset the impact until the anti-noise, vibration and harshness business ramps up again. AirBoss also continues to push ahead with the installation of a new robotic work cell as well as the diversification of its product lines into sectors adjacent to the automotive space.

Just before the end of the first quarter, ADG secured a US$96.4 million order for FlexAir™ PAPRs from FEMA. ADG and its predecessor companies have been producing PAPRs since 1985 and began actively delivering against this contract promptly in early April. Production continues to ramp up with deliveries expected to accelerate through the second quarter. Securing this contract provided a strong validation for the creation of ADG, which married AirBoss' class-leading CBRN protective solutions with Critical Solutions, Inc.'s ("CSI") marketing strength and strong relationships with governments and militaries around the world. This contract is expected to help offset expected weakness in the Rubber Solutions and Engineered Products businesses during the second quarter.

Management believes that the future sourcing of personal protective equipment for first responders and medical professionals will change significantly in response to the COVID-19 pandemic. As a part of overall future emergency preparedness planning, management expects a more unified and streamlined approach aimed at reducing complexity, shortening acquisition times and building strategic stockpiles, compared to the fragmented and complex distributor relationship arrangements seen previously. This is expected to be a future driver for the business and ADG is modifying its business development approach accordingly. Beyond this, AirBoss continues to target traditional defense contracts, valued at hundreds of millions of dollars globally, for its broader portfolio of survivability solutions. This includes opportunities for its new low-burden mask as well as next-generation products like the Blast Gauge™ blast overpressure solution.

The Company is in a sound financial position and management believes it will be able to weather this period of uncertainty and will continue to carefully manage the balance sheet, evaluating opportunities to improve financial flexibility as appropriate. The $19.5 million in capital expenditures made in 2019 is critical to AirBoss' broader organic growth strategy. AirBoss believes it is well positioned to further leverage the investment in innovation, capacity, and new solutions as industry re-opens in accordance with the guidance provided by local and federal governments. In addition, protecting the health and well-being of employees, customers and all stakeholders remains a top priority.

Despite the headwinds associated with COVID-19, 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. Leveraging ADG's enhanced scale and capabilities to pursue an array of growth and value-creation opportunities in the broader survivability solutions segment serving both defense and first responder markets;
3. Driving improved performance from 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 transactions

RESULTS OF OPERATIONS - For the period ended March 31, 2020 compared to 2019

NET SALES

Consolidated net sales for the three-month period ended March 31, 2020 increased by 14.1% to $94,197, compared with the same period in 2019 due largely to the completion of the merger between AirBoss defense business and CSI on January 1, 2020 (the "ADG transaction"). This increase was partly offset by softness in the Rubber Solutions and Engineered Products segments, due in part to the challenges related to the COVID-19 pandemic.

Three-months ended March 31 In thousands of US dollars		Rubber Solutions	Engineered Products	AirBoss Defense Group	Inter-segment net sales	Total
Net Sales	**2020**	**34,254**	**30,062**	**35,059**	**(5,178)**	**94,197**
	2019	35,964	31,017	21,004	(5,410)	82,575
Increase (decrease) $		(1,710)	(955)	14,055	232	11,622
Increase (decrease) %		(4.8)	(3.1)	66.9	(4.3)	14.1

Rubber Solutions

While overall volume increased, as discussed below, for the three-month period ended March 31, 2020, net sales in the Rubber Solutions segment decreased by 4.8% to $34,254, down from $35,964 in the comparable period in 2019. The decrease in net sales was primarily in the conveyor belt sector and partly offset by the mining sector. In addition, the decrease in net sales was due in part to a higher product sales mix in tolling versus non-tolling applications. 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.

Despite the decrease in net sales (in dollars), overall volume (measured in pounds shipped) for the three-month period ended March 31, 2020 increased by 7.8% compared with the same period in 2019. Tolling volumes for the quarter increased 21.4%, compared with the same period in 2019, despite the impact of the COVID-19 pandemic which negatively impacted tolling orders at the end of the month of March 2020. An increase in conventional tolling was partly offset by softness in niche applications. Non-tolling volumes for the three-month period ended March 31, 2020 increased by 3.0% compared with the same period in 2019.

Engineered Products

Net sales in the Engineered Products segment for the three-month period ended March 31, 2020 decreased by 3.1% to $30,062, down from $31,017 in the comparable period in 2019. The decrease was across a number of product lines, including muffler hangers, tooling, and spring isolators, and partially offset by higher demand in dampers. In addition, net sales decreased by approximately $3.5 million following the partial shutdown of the Auburn Hill, Michigan plant on March 19th, 2020 as a result of the COVID-19 pandemic, which resulted in closures of original equipment manufacturers ("OEMs") and Tier 1 customers in the industry.

AirBoss Defense Group

For the three-month period ended March 31, 2020, net sales in the AirBoss Defense Group segment increased by 66.9% to $35,059, from $21,004 in the comparable period in 2019. The increase was primarily a result of equipment sales from CSI that would not have been reported in the comparable period in 2019 as the ADG transaction had not yet occurred. These included sales of ground penetrating radars ("GPRs") Bandoliers and Blast Gauge® Systems. In addition, net sales in the legacy AirBoss defense business were also up due to higher demand in masks, filters and the shelter product lines. These increases were partly offset by lower net sales in the boots product line.

GROSS PROFIT

For the three-month period ended March 31, 2020, consolidated gross profit increased by $6,075 to $18,481, compared with the same period in 2019, with improvements in all segments. Gross profit as a percentage of net sales increased to 19.6% compared to 15.0% for the same period in 2019. These increases were primarily as a result of the ADG transaction.

Three-months ended March 31 In thousands of US dollars		Rubber Solutions	Engineered Products	AirBoss Defense Group	Total
Gross Profit	**2020**	**5,903**	**1,921**	**10,657**	**18,481**
	2019	5,536	1,465	5,405	12,406
Increase (decrease) $		367	456	5,252	6,075
% of net sales	**2020**	**17.2**	**6.4**	**30.4**	**19.6**
	2019	15.4	4.7	25.7	15.0

Rubber Solutions

Despite the decrease in net sales, gross profit at Rubber Solutions for the three-month period ended March 31, 2020 increased by 6.6% to $5,903 (17.2% of net sales), up from $5,536 (15.4% of net sales) in the comparable period in 2019. The increase was principally due to higher volume, for reasons discussed above.

Engineered Products

Despite the decrease in net sales, gross profit in the Engineered Products segment for the three-month period ended March 31, 2020 was $1,921 (6.4% of net sales), up $456 from $1,465 (4.7% of net sales) in the comparable period in 2019. The improvement was a result of lower freight costs and continuous improvement initiatives focused on labour and overhead costs.

AirBoss Defense Group

Gross profit at AirBoss Defense Group for the three-month period ended March 31, 2020 increased by 97.2% to $10,657 (30.4% of net sales), up from $5,405 (25.7% of net sales) in the comparable period in 2019. The increase was primarily due to higher volume and the completion of the ADG transaction, as discussed above.

OPERATING EXPENSES

Consolidated operating expenses for the three-month period ended March 31, 2020 increased by $7,738. The increase was primarily due to operating expenses in CSI as a result of the ADG transaction that would not have been reported in the comparable period in 2019. In addition, this quarter included professional fees associated with the ADG transaction of $2,293 and a foreign exchange loss (compared to a gain in the comparable period in 2019) which resulted in an unfavorable net change of $1,972. As a percentage of net sales, operating expenses for the three-month period ended March 31, 2020 increased to 16.2%, from 9.1% in the same period in 2019.

Three-months ended March 31 In thousands of US dollars		Rubber Solutions	Engineered Products	AirBoss Defense Group	Unallocated Corporate Costs	Total
Operating Expenses	**2020**	**2,129**	**2,962**	**5,576**	**4,614**	**15,281**
	2019	1,971	2,423	2,459	690	7,543
Increase (decrease) $		158	539	3,117	3,924	7,738
% of net sales	**2020**	**6.2**	**9.9**	**15.9**	N/A	**16.2**
	2019	5.5	7.8	11.7	N/A	9.1

Rubber Solutions

Rubber Solutions' operating expenses for the three-month period ended March 31, 2020 increased by $158 to $2,129. The increase was primarily due to a foreign exchange loss compared to a gain in the comparable period.

Engineered Products

Engineered Products' operating expenses for the three-month period ended March 31, 2020 increased by $539 to $2,962. The increase was primarily due to higher administration costs.

AirBoss Defense Group

AirBoss Defense Group's operating expenses for the three-month period ended March 31, 2020 increased by $3,117 to $5,576. The comparative period did not include costs from CSI compared to $2,630 for the current period. The remaining increase was primarily due to higher administration costs.

Unallocated Corporate Costs

Unallocated corporate costs for the three-month period ended March 31, 2020 increased by $3,924 to $4,614. The increase was principally due to professional fees associated with the ADG transaction of $2,293 (2019: $366), a foreign exchange loss (compared to a gain in the comparable period) resulting in an unfavorable net change of $1,654, and higher administration costs.

FINANCE COSTS

Finance costs for the three-month period ended March 31, 2020 were $1,169 (2019: $956). The increase was primarily due to larger losses on an interest rate swap and higher lease interest expense.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $1,244 in the three-month period ended March 31, 2020 (2019: $981) for an effective income tax rate of 61.3% (25.1% in 2019). The effective tax rate was higher in the current quarter primarily due to non-deductibility of costs related to the ADG transaction.

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 $787 for the three-month period ended March 31, 2020, compared with $2,926 for the comparable period in 2019. The decrease was primarily attributable to higher operating expenses related to fees associated with the ADG transaction, a foreign exchange loss, higher finance costs and higher tax expense. These decreases were partially offset by gross profit from CSI that would not have been included in the comparable period in 2019 as the ADG transaction had not yet occurred, as well as improvements noted above in the other businesses.

Loss attributable to shareholders of the Company was $520 (2019: profit of $2,926). Basic and fully diluted net earnings per share in the quarter were $(0.02) versus $0.13 and $0.12, respectively in 2019. The decrease in profitability is for the reasons noted above and due to allocation of a portion (45%) of AirBoss Defense Group's current period net income to a non-controlling interest.

QUARTERLY INFORMATION

In thousands of US dollars			Net income per share	
Quarter Ended	Net Sales	Net Income	Basic	Diluted
2020				
March 31, 2020	**94,197**	**(520)**	**(0.02)**	**(0.02)**
2019				
December 31, 2019	85,762	2,457	0.11	0.11
September 30, 2019	77,173	1,525	0.07	0.07
June 30, 2019	82,616	3,311	0.14	0.14
March 31, 2019	82,575	2,926	0.13	0.12
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

RECAST REPORTING SEGMENTS

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

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

The Rubber Solutions segment will consist of the former rubber solutions segment, excluding the Company's industrial products business line (which is now part of the AirBoss Defense Group Segment).The Engineered Products segment will only consist of the Company's anti-vibration business. AirBoss Defense Group is owned 55% by the Company and consists of the defense businesses and the Company's industrial products business line.

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its remaining 2020 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 (2019: $60 million). No amount was drawn against this facility at March 31, 2020.

For the three-month period ended March 31, 2020, cash of $12,409 was provided by operations, (2019: $2,259 used), $2,656 was provided by investing activities (2019: $3,234 used), and $3,295 was used in financing activities (2019: $2,512). Cash and cash equivalents increased by $11,661 from $121 to $11,782, adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

For the three-month period ended March 31, 2020, cash provided by operating activities increased by $14,668 compared with the same period in 2019. The increase was due to $14,834 more cash from working capital needs and higher non-cash expenses of $3,773 that were partially offset by lower net income of $2,139, higher tax payments of $1,713, and higher interest payments of $87.

Cash provided by working capital for the three-month period ended March 31, 2020 increased to $6,675 (2019: $8,159 used) as a result of the following factors:

- Cash from accounts receivable was $4,954; of which $947 was attributable to Rubber Solutions' lower net sales and foreign exchange losses, $1,779 was attributable to Engineered Products' lower net sales and improved collection of outstanding receivables, and the balance was attributable to AirBoss Defense Group's collection of a large shipment that was outstanding at December 31, 2019;

- Cash used for inventory was $2,789; of which $1,939 was attributable to Rubber Solutions in preparation for orders that were subsequently reduced due to the COVID-19 pandemic. $596 was attributable to Engineered Products for upcoming production of a new product and holding finished goods scheduled to be shipped that were canceled due to automobile industry closures;
- Cash used for prepaid expenses was $460, with the increase over the prior year primarily related to new product launches and payment of insurance premiums; and
- Cash from accounts payable was $5,020 due to extended payment terms with vendors and commissions payable on sales made by CSI.

Investing Activities

Property, Plant and Equipment

For the three-month period ended March 31, 2020, the following investments were made:

- Rubber Solutions invested $894 in property plant and equipment. Of this, $216 was invested in growth initiatives and the balance was to replace or upgrade existing property, plant and equipment;
- Engineered Products invested $816. Of this, $585 was invested in growth initiatives and the balance was on cost savings initiatives; and
- AirBoss Defense Group invested $294 in property plant and equipment. Of this, $39 was invested in growth initiatives, and the balance on cost savings initiatives and to replace or upgrade existing property, plant and equipment.

Intangible Assets

For the three-month period ended March 31, 2020, the Company invested $338 in intangible assets made up of $70 of product development costs for the defense business and the balance for new financial reporting and productivity 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 January 2023.

In January 2020 the Company signed an amended and restated credit agreement in connection with the merger between AirBoss' defense business and Critical Solutions International, Inc. The amended and restated credit agreement matures in January 2023 and otherwise carries similar terms as the existing credit agreement. The Company paid $650 of finance fees to extend the credit agreement, plus an additional $128 of fees in 2019.

Deferred financing fees, less accumulated amortization have been deducted against the term loan for presentation purposes.

During the three-month period ended March 31, 2020, the Company made principal repayments of $938 (2019: $938) pursuant to the term loans under the credit facility, and $450 (2019: $374)of principal payments for its lease obligations.

The Company paid dividends of $1,261 during the three-month period ended March 31, 2020 (2019: $1,200).

Government assistance

During the quarter the Company recognized grants of $15 (2019: $18) to support certain initiatives that were offset against expenses, and an additional $500 that were offset against the cost of plant and equipment.

Scientific research and investment tax credits of $133 (2019: $115) were recognized in the quarter and research and development costs were reduced accordingly.

The Canadian and US governments have enacted a number of programs to support Canadian businesses and the Company is reviewing its eligibility for these programs. On May 8, 2020 the Company received a loan of $6,422 through a US government program to fund certain payroll and business expenses of the Company's Michigan and North Carolina operations. This loan may be forgiven in full or in part if the Company meets certain criteria.

Dividends

A quarterly dividend of CAD $0.07 per share was declared on March 10, 2020 and paid on April 15, 2020. Total annual dividends declared during 2019 were CAD $0.28 per common share.

Outstanding shares

As at May 13, 2020, the Company had 23,400,030 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

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

During the quarter, the Company paid fees for the use of a facility in South Carolina of approximately $9 (2019: $8) 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 former Vice-Chair to purchase common shares of the Company that was repaid in November 2019. In December 2016, the Company provided a share purchase loan of CAD $250 to the Chief Financial Officer. In March 2018, the Company provided a share purchase loan of CAD $500 to the President and Chief Operating Officer. On June 28, 2019, the Company provided share purchase loans of CAD $300 to the Executive Vice

President, Corporate and General Counsel; CAD $92 to the President and Chief Operating Officer; and CAD $100 to the former Vice President Human Resources that was repaid in April 2020. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or the fifth anniversary of the issuance date. All share purchase loans issued prior to 2019 bear interest at 1% annually and all subsequent loans share purchase loans bear interest at 2% annually. In all cases, loans are full recourse and interest is due and payable semi-annually. In total, 120,185 shares of the Company having a fair value of $683 were pledged as collateral on these loans. At March 31, 2020, the loan receivables of $880, including accrued interest of $5, were included in other assets, and trade and other receivables, including derivatives. During the quarter, interest of $4 (2019: nil) was paid.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies in Note 3 to the annual consolidated financial statements for the year ended December 31, 2019, have been applied consistently to all periods presented in these interim condensed consolidated financial statements for the period ended March 31, 2020.

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.

Section 3.3(1)(b) of National Instrument 52-109 allows an issuer to limit its design of DC&P and ICFR to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days prior to the end of the fiscal period. The controls, policies and procedures of CSI, which was acquired by the Company effective January 1, 2020, have been excluded from the control design assessments discussed above. The scope limitation is based on the time required to document and assess the DC&P and ICFR of CSI in a manner consistent with the Company's other operations. Management is currently in the process of integrating CSI into the Company's existing internal controls and procedures.

Certain financial information related to CSI under the NI 52-109 scope limitation as at March 31, 2020 is summarized as follows: 1) current assets of $12,677; 2) non-current assets of $30,007; 3) current liabilities of $7,782; 4) non-current liabilities of $32; 5) net sales of $11,156 for the three-month period ended March 31, 2020; and 6) measure of profit of $678 for the three-month period ended March 31, 2020.

FINANCIAL INSTRUMENTS

Foreign exchange hedge

At March 31, 2020, the Company had contracts to sell USD $16,349 from April 2020 to January 2021 for Canadian dollars ("CAD") $21,700. The fair value of these contracts, representing an unrealized loss of $1,053, are included in trade and other payables, including derivatives on the statement of financial position. For the quarter ended March 31, 2020, the unrealized changes in fair value, representing a loss of $1,511 (2019: gain of $599), are recorded on the statement of profit as other income (expense).

At December 31, 2019, the Company had contracts to sell US $19,715 from January 2020 to November 2020 for CAD $26,200. The fair value of these contracts, representing an unrealized gain of $457 are included in trade and other receivables, including derivatives on the statement of financial position.

Interest rate swap

In 2017, the Company entered into an interest rate swap agreement for a notional amount of $35,000. ($27,067 as at March 31, 2020) amortizing down to $24,267 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 quarter, the interest income on the swap agreement was nil (2019: $59).

At March 31, 2020, the fair value of this agreement, representing a loss of $252, is included in loans and borrowings on the statement of financial position. For the quarter ended March 31, 2020, the change in the fair value, representing a loss of $233 (2019: loss of $151), is recorded on the statement of profit as finance costs.

At December 31, 2019, the fair value of this agreement, representing a loss of $19, 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 term loan and does not hold it for trading or speculative purposes.

May 13, 2020

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, 2020 and March 31, 2019.

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, 2020 and March 31, 2019 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 13, 2020

Interim Condensed Consolidated Statement of Financial Position
Unaudited

In thousands of US dollars	*Note*	**March 31, 2020**	December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		**11,782**	121
Trade and other receivables, including derivatives	*4, 6, 8*	**65,022**	68,890
Prepaid expenses		**5,308**	4,689
Inventories	*5*	**48,145**	41,996
Current income taxes receivable	*12*	**2,103**	1,611
Total current assets		**132,360**	117,307
Non-current assets			
Property, plant and equipment		**80,492**	80,169
Intangible assets	*3*	**77,814**	49,935
Deferred income tax assets		**482**	846
Other assets	*6*	**1,746**	1,407
Total non-current assets		**160,534**	132,357
Total assets		**292,894**	249,664
LIABILITIES			
Current liabilities			
Loans and borrowings	*7*	**5,421**	5,358
Trade and other payables, including derivatives	*8*	**52,572**	43,590
Provisions	*9*	**92**	103
Current income taxes payable	*12*	**—**	753
Total current liabilities		**58,085**	49,804
Non-current liabilities			
Loans and borrowings	*7*	**67,221**	68,786
Employee benefits	*14*	**464**	510
Provisions	*9*	**528**	626
Deferred income tax liabilities	*12*	**3,832**	3,959
Total non-current liabilities		**72,045**	73,881
Total liabilities		**130,130**	123,685
EQUITY			
Share capital	*10*	**39,579**	39,579
Contributed surplus	*10*	**14,959**	1,262
Retained earnings		**83,399**	85,138
Equity attributable to owners of the Company		**137,937**	125,979
Non-controlling interest		**24,827**	—
Total equity		**162,764**	125,979
Total liabilities and equity		**292,894**	249,664

The notes on pages 17 to 27 are an integral part of these interim condensed consolidated financial statements.
Subsequent events (note 18)

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*	**2020**	2019
Net Sales		**94,197**	82,575
Cost of sales		**(75,716)**	(70,169)
Gross profit		**18,481**	12,406
General and administrative expenses		**(11,742)**	(6,185)
Selling and marketing expenses		**(1,449)**	(1,300)
Research and development expenses		**(418)**	(446)
Other income (expenses)		**(1,672)**	388
		(15,281)	(7,543)
Results from operating activities		**3,200**	4,863
Finance costs	*7, 8*	**(1,169)**	(956)
Profit before income tax		**2,031**	3,907
Income tax expense	*12*	**(1,244)**	(981)
Profit and total comprehensive income for the period		**787**	2,926
Profit (loss) attributable to:			
Owners of the Company		**(520)**	2,926
Non-controlling interest		**1,307**	—
		787	2,926
Earnings (loss) per share:			
Basic	*11*	**(0.02)**	0.13
Diluted	*11*	**(0.02)**	0.12

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	Non-controlling interest	Total equity
Balance at January 1, 2019		39,579	1,157	80,747	121,483	—	121,483
Impact of change in accounting policy		—	—	(904)	(904)	—	(904)
Adjusted balance at January 1, 2019		39,579	1,157	79,843	120,579	—	120,579
Total comprehensive income for the period		—	—	2,926	2,926	—	2,926
Contributions by and distributions							
Stock options expensed		—	23	—	23	—	23
Dividends to equity holders		—	—	(1,244)	(1,244)	—	(1,244)
Total contributions by and distributions		—	23	(1,244)	(1,221)	—	(1,221)
Balance at March 31, 2019		39,579	1,180	81,525	122,284	—	122,284

Balance at January 1, 2020		39,579	1,262	85,138	125,979	—	125,979
Total comprehensive income for the period		—	—	(520)	(520)	1,307	787
Contributions by and distributions							
Stock options expensed		—	24	—	24	—	24
Acquisition and partial sale of subsidiaries	3	—	13,673	—	13,673	23,520	37,193
Dividends to equity holders		—	—	(1,219)	(1,219)	—	(1,219)
Total contributions by and distributions		—	13,697	(1,219)	12,478	23,520	35,998
Balance at March 31, 2020		39,579	14,959	83,399	137,937	24,827	162,764

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 three-month period ended March 31 In thousands of US dollars	*Note*	**2020**	2019
Cash flows from operating activities			
Profit for the three-month period ended March 31		**787**	2,926
Adjustments for:			
Depreciation		**2,815**	2,283
Amortization of intangible assets		**1,420**	749
Finance costs	*7,8*	**1,169**	956
Unrealized foreign exchange losses (gains)		**1,635**	(546)
Share-based payment expense	*9,10*	**19**	88
SRED tax credits		**(133)**	(115)
Current income tax expense	*12*	**1,038**	1,706
Deferred income tax expense (recovery)	*12*	**206**	(725)
Other		**(8)**	(8)
		8,948	7,314
Change in inventories		**(2,789)**	(731)
Change in trade and other receivables		**4,954**	(8,203)
Change in prepaid expenses		**(460)**	48
Change in trade and other payables		**5,020**	727
Change in provisions	*9*	**(50)**	—
Net change in non-cash working capital balances		**6,675**	(8,159)
Interest paid		**(814)**	(727)
Income tax paid		**(2,400)**	(687)
Net cash provided by (used in) operating activities		**12,409**	(2,259)
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(2,004)**	(2,945)
Acquisition of intangible assets		**(338)**	(289)
Proceeds from government grant		**500**	—
Cash acquired on acquisition of subsidiary		**4,498**	—
Net cash provided by (used in) investing activities		**2,656**	(3,234)
Cash flows from financing activities			
Repayment of borrowings		**(938)**	(938)
Principal payments for lease liabilities		**(450)**	(374)
Payment of debt refinancing fees		**(650)**	—
Interest received on share purchase loans	*6, 16*	**4**	—
Dividends paid	*10*	**(1,261)**	(1,200)
Net cash used in financing activities		**(3,295)**	(2,512)
Net change in cash and cash equivalents		**11,770**	(8,005)
Cash and cash equivalents at January 1		**121**	17,862
Effect of exchange rate fluctuations on cash held		**(109)**	21
Cash and cash equivalents at March 31		**11,782**	9,878

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 three-month periods ended March 31, 2020 and March 31, 2019
(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).

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

List of Subsidiaries

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

Operating Subsidiaries	Jurisdiction	Ownership % 2020 (2019)
AirBoss Rubber Compounding (NC) Inc.	North Carolina	100% (100%)
SunBoss Chemicals Corp.	Ontario	100% (100%)
AirBoss Flexible Products Co.	Michigan	100% (100%)
AirBoss Defense Group Ltd. ("ADG Canada") (formerly AirBoss Engineered Products Inc.)	Quebec	55% (100%)
AirBoss Defense Group, LLC ("ADG USA") (formerly Immediate Response Technologies, LLC)	Delaware	55% (100%)
Critical Solutions International, Inc.	Texas	55% (nil)

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

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

The Rubber Solutions segment will consist of the former rubber solutions segment, excluding the Company’s industrial products business line (which is now part of the AirBoss Defense Group Segment).The Engineered Products segment will only consist of the Company's anti-vibration business. AirBoss Defense Group is owned 55% by the Company and consists of the defense businesses and the Company’s industrial products business line.

NOTE 2 BASIS OF PREPARATION

Statement of compliance

The interim condensed consolidated financial statements should be read in conjunction with the Company’s 2019 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 May 13, 2020.

The accounting policies in Note 3 to the annual consolidated financial statements for the year ended December 31, 2019, have been applied consistently to all periods presented in these interim condensed consolidated financial statements.

NOTE 3 ACQUISITION OF CRITICAL SOLUTIONS INTERNATIONAL, INC.

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

The Company contributed the shares of ADG Canada and the membership interests of ADG USA to newly formed Canadian and U.S. entities that formed AirBoss Defense Group. Critical Solutions Holdings Inc. ("CSH") contributed all the shares of CSI to the newly formed business. In consideration, AirBoss received 55% of the equity in ADG and US$60 million in the form of a Vendor Takeback Note. CSH received 45% of the equity interest in AirBoss Defense Group.

Acquisition-related costs

The Company incurred acquisition-related costs of $2,293 on professional fees and due diligence costs in 2020 and $1,401 in 2019. These costs have been included in “general and administrative expenses”.

Identifiable assets acquired and liabilities assumed

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

In thousands of US dollars	
Fair value of assets acquired:	
Cash and cash equivalents	4,498
Trade and other receivables	2,204
Prepaid expenses	184
Inventories	3,360
Property, plant, and equipment	1,335
Customer relationships	17,900
Brand	6,000
Other intangible assets	2,150
Investments	491
Total assets	38,122
Value of liabilities assumed:	
Trade and other payables	3,757
Vendor Takeback Note	15,000
Deferred income tax liabilities	40
Total liabilities assumed	18,797
Net assets acquired	19,325

The fair value of CSI's intangible assets (customer relationships, brand and patented technology) have been measured through an independent valuation. The fair value of CSI's deferred tax assets and liabilities have been measured provisionally, pending completion of an independent review.

Goodwill

Goodwill arising from the acquisition has been recognized as follows.

In thousands of US dollars	
Consideration transferred:	
NCI, based on their proportionate interest in ADG Canada, ADG USA and CSI	23,520
Paid in capital on dilution of ownership interest in ADG Canada and ADG USA	13,673
Vendor Takeback Note transferred from CSH	(15,000)
Less: Fair value of net assets acquired	**(19,325)**
Goodwill	2,868

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

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

NOTE 4 TRADE AND OTHER RECEIVABLES

In thousands of US dollars	**March 31, 2020**	December 31, 2019
Trade receivables	**64,233**	67,900
Less: allowance for doubtful accounts	**(455)**	(481)
	63,778	67,419
Loan to Officers (note 6)	**71**	—
Other receivables	**1,173**	1,471
	65,022	68,890

Impairment losses

The aging of trade receivables at the reporting date was:

	March 31, 2020		December 31, 2019	
In thousands of US dollars	**Gross**	**Impairment**	Gross	Impairment
Within terms	**49,148**	**—**	50,875	—
Past due 0-30 days	**11,291**	**—**	12,769	—
Past due 31-120 days	**3,794**	**(455)**	4,256	(481)
	64,233	**(455)**	67,900	(481)

The continuity of the allowance for doubtful accounts was:

In thousands of US dollars	**March 31, 2020**	December 31, 2019
Balance at January 1	**(481)**	(399)
Acquired on acquisition of subsidiary	**(11)**	—
Impairment loss recognized	**(22)**	(296)
Collected	**59**	214
Balance	**(455)**	(481)

NOTE 5 INVENTORIES

In thousands of US dollars	**March 31, 2020**	December 31, 2019
Raw materials and consumables	**30,997**	30,371
Work in progress	**3,262**	3,435
Finished goods	**16,910**	11,368
Inventory in transit	**620**	412
	51,789	45,586
Provisions	**(3,644)**	(3,590)
	48,145	41,996

An inventory charge of $54 (2019: charge of $265) was included in cost of sales for the increase in provisions.

NOTE 6 **OTHER ASSETS**

In thousands of US dollars	Share purchase loans	Other	Total
Balance at January 1, 2019	1,284	446	1,730
Accrued interest	16	—	16
Interest received	(9)	—	(9)
Repayment of loan	(764)	—	(764)
New loan issuances	364	—	364
Effect of movements in exchange rates	70	—	70
Balance at December 31, 2019	961	446	1,407
Acquired on acquisition of subsidiary (note 3)	—	491	491
Accrued interest	3	—	3
Interest received	(4)	—	(4)
Effect of movements in exchange rates	(80)	—	(80)
Balance at March 31, 2020	880	937	1,817
Less: current portion (note 4)	(71)		(71)
	809	937	1,746

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.

In January 2020 the Company signed an amended and restated credit agreement in connection with the merger between AirBoss' defense business and Critical Solutions International, Inc. The amended and restated credit agreement matures in January 2023 and otherwise carries similar terms as the existing credit agreement. The Company paid $650 of finance fees to extend the credit agreement, plus an additional $128 of fees in 2019.

During the first quarter of 2020, interest expense on the term debt was $504 (2019: $648), 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, 2020, the Company had contracts to sell USD $16,349 from April 2020 to January 2021 for Canadian dollars ("CAD") $21,700. The fair value of these contracts, representing an unrealized loss of $1,053, are included in trade and other payables, including derivatives on the statement of financial position. For the quarter ended March 31, 2020, the unrealized changes in fair value, representing a loss of $1,511 (2019: gain of $599), are recorded on the statement of profit as other income (expense).

At December 31, 2019, the Company had contracts to sell US $19,715 from January 2020 to November 2020 for CAD $26,200. The fair value of these contracts, representing an unrealized gain of $457 are included in trade and other receivables, including derivatives on the statement of financial position.

Interest rate swap

In 2017, the Company entered into an interest rate swap agreement for a notional amount of $35,000. ($27,067 as at March 31, 2020) amortizing down to $24,267 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 quarter, the interest income on the swap agreement was nil (2019: $59).

At March 31, 2020, the fair value of this agreement, representing a loss of $252, is included in loans and borrowings on the statement of financial position. For the quarter ended March 31, 2020, the change in the fair value, representing a loss of $233 (2019: loss of $151), is recorded on the statement of profit as finance costs.

At December 31, 2019, the fair value of this agreement, representing a loss of $19, 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 term loan and does not hold it for trading or speculative purposes.

NOTE 9 PROVISIONS

In thousands of US dollars	Site restoration	Performance and Deferred stock units	Lease incentives	Total
Balance at January 1, 2019	74	481	199	754
Impact of change in accounting policy	—	—	(199)	(199)
Provisions accrued during the year	—	313	—	313
Payments during the year	—	(133)	—	(133)
Forfeitures during the year	—	(32)	—	(32)
Foreign exchange	—	26	—	26
Balance at December 31, 2019	74	655	—	729
Less: current principal due within one year	—	(103)	—	(103)
Non-current balance at December 31, 2019	74	552	—	626
Balance at December 31, 2019	74	655	—	729
Provisions recovered during the period	—	1	—	1
Payments during the period	—	(50)	—	(50)
Forfeitures during the period	—	(6)	—	(6)
Foreign exchange	—	(54)	—	(54)
Balance at March 31, 2020	74	546	—	620
Less: current portion due within one year		(92)		(92)
Non-current balance at March 31, 2020	74	454	—	528

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

Performance Stock Units

The Company has issued certain executives with an aggregate of 226,006 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, 2020**	December 31, 2019	March 31, 2019
January 1	**83,998**	114,908	114,908
New issuances	**173,619**	26,643	—
Forfeitures	**(4,496)**	(14,563)	—
Settlements	**(27,115)**	(42,990)	—
Balance	**226,006**	83,998	114,908

During the quarter the Company recognized cost recoveries of $17 (2019: costs of $25) 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, 2020**	December 31, 2019	March 31, 2019
January 1	**72,672**	43,088	43,088
New issuances	**10,901**	29,584	13,527
Balance	**83,573**	72,672	56,615

At March 31, 2020, independent directors held 83,573 DSUs. During the quarter the Company recognized costs of $12 (2019: $40) 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, 2020**	December 31, 2019	March 31, 2019
January 1	**23,392**	23,392	23,392
Exercise of stock options	**—**	—	—
Share repurchases	**—**	—	—
Balance	**23,392**	23,392	23,392

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

	2020	2019
Stock options granted and outstanding	**1,914,011**	519,272

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 2020**
Fair value at grant date	**$**	**0.66**
Share price at grant date	**$**	**4.84**
Exercise price	**$**	**5.14**
Expected volatility (weighted average volatility)		**32.6%**
Option life (expected weighted average life)		**5 years**
Expected dividends		**5.8%**
Risk-free interest rate (based on government bonds)		**0.8%**

Stock option expense

During the quarter the Company recognized as costs of $24 (2019: $23) 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 in 2020 and 2019 as follows:

		2020		2019
Shareholder of record at:	**$CAD/share**	**Date Paid**	$CAD/share	Date Paid
March 31	**0.07**	**April 15, 2020**	0.07	April 15, 2019

The dividend payable at March 31, 2020 was $1,154 (March 31, 2019: $1,225).

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	**2020**	2019
Numerator for basic and diluted earnings per share: Net income	**(520)**	2,926
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	**23,392**	23,392
Dilution effect of stock options	**—**	—
Dilution of effect of deferred stock units	**—**	43
Diluted weighted average number of shares outstanding	**23,392**	23,435
Net income per share: Basic	**(0.02)**	0.13
Diluted	**(0.02)**	0.12

For the three-month periods ended March 31, 2020, 1,914,011 options (2019: 519,272) 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 periods ended March 31 In thousands of US dollars	**2020**	2019
Current tax expense:		
Current period	**1,225**	1,756
Adjustment for prior period(s)	**(187)**	(50)
	1,038	1,706
Deferred tax expense:		
Origination and reversal of temporary differences	**206**	(702)
Adjustment for prior period(s)	**—**	(23)
	206	(725)
Total income tax expense	**1,244**	981

NOTE 13 GOVERNMENT ASSISTANCE

During the quarter the Company recognized grants of $15 (2019: $18) to support certain initiatives that were offset against expenses, and an additional $500 that were offset against the cost of plant and equipment.

Scientific research and investment tax credits of $133 (2019: $115) were recognized in the quarter and research and development costs were reduced accordingly.

NOTE 14 POST RETIREMENT BENEFITS

Defined Contribution Plan

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 $83 (2019: $81).

AirBoss Rubber Compounding (NC) Inc. maintains a 401(k) plan for its employees. Total expenses for this plan during the period were $19 (2019: $13).

AirBoss Flexible Products Co. ("AFP") maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were $108 (2019: $96).

AirBoss Defense Group, LLC maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were $26 (2019: $22).

AirBoss Defense Group Ltd. employees are covered under various registered and unregistered defined contribution plans. Total expenses for these plans during the period were $65 (2019: $54).

Critical Solutions International, Inc. maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were $107.

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 $71 (2019: $65) to the multi-employer pension plan. The unfunded vested benefit ratio was 17.0% at December 31, 2019. The Steel Workers Pension Trust was in a net deficit at December 31, 2019 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

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

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

The Rubber Solutions segment will consist of the former rubber solutions segment, excluding the Company's industrial products business line (which is now part of the AirBoss Defense Group Segment).The Engineered Products segment will only consist of the Company's anti-vibration business. AirBoss Defense Group is owned 55% by the Company and consists of the defense businesses and the Company's industrial products business line.

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

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

Information about reportable segments three-months ended March 31	Rubber Solutions		Engineered Products		AirBoss Defense Group		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Segment net sales	**34,254**	35,964	**30,062**	31,017	**35,059**	21,004	**—**	—	**99,375**	87,985
Inter-segment net sales	**(4,266)**	(4,570)	**0**	0	**(912)**	(840)	**—**	—	**(5,178)**	(5,410)
External net sales	**29,988**	31,394	**30,062**	31,017	**34,147**	20,164	**—**	—	**94,197**	82,575
Depreciation, amortization, and impairment	**753**	886	**1,226**	1,133	**2,184**	970	**72**	43	**4,235**	3,032
Segment measure of profit (loss)	**3,774**	3,565	**(1,041)**	(958)	**5,081**	2,946	**(4,614)**	(690)	**3,200**	4,863
Finance costs									**1,169**	956
Income tax expense									**1,244**	981
Net Income (loss)									**787**	2,926
Segment assets[1]	**74,130**	76,720	**80,043**	79,471	**127,860**	89,226	**10,861**	4,247	**292,894**	249,664
Segment liabilities[1]	**21,103**	20,560	**23,163**	24,314	**20,103**	14,153	**65,761**	64,658	**130,130**	123,685
Capital additions[2]	**894**	2,268	**816**	374	**664**	474	**267**	118	**2,641**	3,234

[1] Comparative figures as at December 31, 2019.
[2] Comparative figures as at March 31, 2019.

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		Non-current assets		Non-current assets
	Three-months ended March 31		March 31		December 31
In thousands of US dollars	**2020**	2019	**2020**	2019	2019
Canada	**18,754**	15,102	**48,230**	45,046	48,429
United States	**68,190**	59,743	**112,304**	73,288	83,928
Other countries	**7,253**	7,730	**—**	—	—
	94,197	82,575	**160,534**	118,334	132,357

Major customers

Net sales from one customer represented approximately 7.5% (2019: 12.9%) of the Company's total net sales. Five customers represented 32.1% (2019: 40.2%) of the Company's total net sales.

Major products

	Three months ended March 31	
In thousands of US dollars	**2020**	2019
Rubber Solutions		
Tolling	**2,765**	2,395
Mixing	**27,223**	28,999
	29,988	31,394
AirBoss Defense Group		
Defense	**27,408**	12,456
Industrial	**6,739**	7,708
	34,147	20,164
Engineered Products	**30,062**	31,017
Total	**94,197**	82,575

NOTE 16 RELATED PARTIES

Transactions with Related Parties

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

During the quarter, the Company paid fees for the use of a facility in South Carolina of approximately $9 (2019: $8) 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 former Vice-Chair to purchase common shares of the Company that was repaid in November 2019. In December 2016, the Company provided a share purchase loan of CAD $250 to the Chief Financial Officer. In March 2018, the Company provided a share purchase loan of CAD $500 to the President and Chief Operating Officer. On June 28, 2019, the Company provided share purchase loans of CAD $300 to the Executive Vice President, Corporate and General Counsel; CAD $92 to the President and Chief Operating Officer; and CAD $100 to the former Vice President Human Resources that was repaid in April 2020. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or the fifth anniversary of the issuance date. All share purchase loans issued prior to 2019 bear interest at 1% annually and all subsequent loans share purchase loans bear interest at 2% annually. In all cases, loans are full recourse and interest is due and payable semi-annually. In total, 120,185 shares of the Company having a fair value of $683 were pledged as collateral on these loans. At March 31, 2020, the loan receivables of $880, including accrued interest of $5, were included in other assets, and trade and other receivables, including derivatives. During the quarter, interest of $4 (2019: 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.

NOTE 18 SUBSEQUENT EVENTS

COVID-19 could 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 an undrawn credit facility as at March 31, 2020 that can provide financing up to $60,000. The Canadian and US governments have enacted a number of programs to support Canadian businesses and the Company is reviewing its eligibility for these programs. On May 8, 2020 the Company received a loan of $6,422 through a US government program to fund certain payroll and business expenses of the Company's Michigan and North Carolina operations. This loan may be forgiven in full or in part if the Company meets certain criteria.

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