AIRBOSS OF AMERICA CORP.

2018 SECOND 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 August 13, 2018 and should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements and Notes for the three and six month periods ended June 30, 2018 and the MD&A and Audited Consolidated Financial Statements and Notes for the year ended December 31, 2017. The 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 second 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 these forward-looking information. Numerous factors could cause actual results to differ materially from those in the forward-looking information, including without limitation: impact of general economic conditions; dependence on key customers; cyclical trends in the tire and automotive, construction, mining and retail industries; sufficient availability of raw materials at economical costs; weather conditions affecting raw materials, production and sales; AirBoss' ability to maintain existing customers or develop new customers in light of increased competition; AirBoss' ability to successfully integrate acquisitions of other businesses and/or companies or to realize on the anticipated benefits thereof; changes in accounting policies and methods, including uncertainties associated with critical accounting assumptions and estimates; changes in the value of the Canadian dollar relative to the US dollar; changes in tax laws and potential litigation; ability to obtain financing on acceptable terms; environmental damage and non-compliance with environmental laws and regulations; potential product liability and warranty claims and equipment malfunction. This list is not exhaustive of the factors that may affect any of AirBoss' forward-looking information.

All of the forward-looking information in this Interim Report is expressly qualified by these cautionary statements. Investors are cautioned not to put undue reliance on forward-looking information. All subsequent written and oral forward-looking information attributable to AirBoss or persons acting on its behalf are expressly qualified in their entirety by this notice. Forward-looking information contained herein is made as of the date of this Interim Report and, whether as a result of new information, future events or otherwise, AirBoss disclaims any intent or obligation to update publicly this 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.

RESULTS OF OPERATIONS – Second quarter ended June 30, 2018 compared to 2017

Second quarter ended June 30, 2018 compared to 2017 Highlights

(In US dollars)

- Consolidated net sales increased by 10.7% to $81.8 million
- Net sales in the Engineered Products' defense business increased by 48.7% to $11.5 million
- Quarterly dividend paid of CAD $0.07 per share
- Basic and diluted earnings per share of $0.11 per common share

Selected Financial Information

In thousands of US dollars, except where otherwise noted	Three months ended June 30 (unaudited)		Six months ended June 30 (unaudited)	
	2018	2017	**2018**	2017
Financial results:				
Net sales	**81,797**	73,877	**162,346**	143,804
Net income	**2,660**	3,180	**5,858**	6,056
Net income per share (US $)				
– Basic	**0.11**	0.14	**0.25**	0.26
– Diluted	**0.11**	0.14	**0.25**	0.26
EBITDA[1]	**7,074**	7,419	**14,593**	14,432
Net cash provided by operating activities	**3,067**	3,566	**1,536**	1,333
Dividends declared per share (CAD $)	**0.07**	0.07	**0.14**	0.14
Capital expenditures	**1,131**	1,843	**2,746**	3,385
Financial position:	**June 30, 2018**			December 31, 2017
Total assets	**231,631**			225,948
Term loan and other debt	**66,912**			69,257
Shareholders' equity	**121,510**			117,161
Outstanding shares (#) *	**23,430,862**			23,091,113
** at August 13, 2018*				

[1]Non-IFRS Financial Measures

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

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

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

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

A reconciliation of net income to EBITDA is presented below:

MD&A (cont'd)

RESULTS OF OPERATIONS – Second quarter ended June 30, 2018 compared to 2017

	Three months ended June 30 (unaudited)		Six months ended June 30 (unaudited)	
In thousands of US dollars	**2018**	2017	**2018**	2017
EBITDA:				
Net Income	**2,660**	3,180	**5,858**	6,056
Finance costs	**671**	781	**1,170**	1,513
Depreciation and amortization, including loss on disposal	**2,789**	2,720	**5,541**	5,394
Income tax expense	**954**	738	**2,024**	1,469
EBITDA	**7,074**	7,419	**14,593**	14,432

NET SALES

Consolidated net sales for the three and six month periods ended June 30, 2018 increased, in both segments, by 10.7% to $81,797, and by 12.9% to 162,346, respectively for reasons discussed below.

Three months ended June 30 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Total
Net Sales	**2018**	**36,410**	**45,387**	**81,797**
	2017	32,525	41,352	73,877
Increase (decrease) $		3,885	4,035	7,920
Increase (decrease) %		11.9	9.8	10.7

Six months ended June 30 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Total
Net Sales	**2018**	**72,487**	**89,859**	**162,346**
	2017	63,384	80,420	143,804
Increase (decrease) $		9,103	9,439	18,542
Increase (decrease) %		14.4	11.7	12.9

Rubber Solutions

For the three month period ended June 30, 2018, net sales for Rubber Solutions increased by 11.9%, to $36,410, from $32,525 in the comparable period in 2017. The growth in net sales was partly due to an increase of approximately 11.8% in raw material costs that resulted in price increases to customers. In addition, volume (measured in pounds shipped) increased by 11.4% compared to the same period in in 2017. The increase in net sales was principally reflected in the mining and conveyor belt sectors. These increases were partly offset by decreases in the automotive and infrastructure sectors.

Tolling volumes for the three month period ended June 30, 2018 increased by 109.3%, compared to the same period in 2017. The increase was in both niche and conventional tolling applications. Tolling rates were up by 38.3%, compared to the second quarter in 2017, with increases in niche tolling applications that were partly offset by decreases in conventional tolling. Non-tolling volume for the second quarter ended June 30, 2018 decreased by 3.4%, compared to the same period in 2017.

Net sales for the six month period ended June 30, 2018 in Rubber Solutions increased by 14.4%, to $72,487, from $63,384 in the comparable period in 2017. The increase in net sales was as a result of a 10.5% increase in overall volume and an increase of approximately 17.3% in raw material costs that resulted in price increases to customers. The increase in net sales was reflected across the majority of sectors and, primarily in mining, conveyor belt, off the road ("OTR") and track. These increases were partly offset by decreases in the automotive and chemical sectors.

Tolling volumes for the six month period ended June 30, 2018 increased by 112.0% compared to 2017. The increase was in both niche and conventional tolling applications. Tolling rates also increased by 25.5%, with increases in niche tolling applications that were partly offset by conventional tolling. Non-tolling volume for the six month period ended June 30, 2018 decreased by 3.7%, compared to the same period in 2017.

Engineered Products

Net sales in the Engineered Products segment for the three and six month periods ended June 30, 2018 increased by 9.8%, to $45,387, and 11.7% to $89,859, respectively, from the comparable periods in 2017.

MD&A (cont'd)

RESULTS OF OPERATIONS – Second quarter ended June 30, 2018 compared to 2017

Net sales in the automotive business for the three month period ended June 30, 2018 increased by 0.8%, to $33,851, from $33,592 in the comparable period in 2017. The increase was primarily in the bushings and induction bonding product lines. These were partly offset by lower demand in spring isolators and muffler hangers. The decrease in spring isolators was due to the previously disclosed end of a vehicle program.

Net sales in the automotive business for the six month period ended June 30, 2018 decreased by 0.6%, to $67,367, from $67,745 in the comparative period in 2017. The decrease was primarily in the muffler hanger and spring isolator product lines which were partly offset by higher demand in bushings, dampers and induction bonding.

In the defense business, net sales for the three and six month periods ended June 30, 2018 increased by 48.7% to $11,537 and 77.5% to $22,492, respectively, compared to the same periods in 2017. For both periods, the increases were across most major product lines, and in particular in filters, masks, shelters, and powered air purifying respirators ("PAPRs"). These increases were partly offset by lower demand in the gloves and boots product lines in both periods.

GROSS PROFIT

Consolidated gross profit for the three month period ended June 30, 2018 increased by $690, to $12,458, compared to the same period in 2017. The increase in gross profit was primarily due to increased net sales in the Engineered Products' defense business.

Consolidated gross profit for the six months period ended June 30, 2018 increased by $2,259, to $25,123, compared to the same period in 2017. The increase in gross profit was due to increased net sales in the Engineered Products' defense business.

For both the three and six month periods ended June 30, 2018, gross profit as a percentage of net sales decreased from 15.9% to 15.2%, and 15.9% to 15.5%, respectively, compared to the same periods in 2017. The decline in both the three month and six month periods was principally due to higher raw material costs in the Rubber Solutions' segment, discussed above, which resulted in price increases to customers, and strong improvements in Engineered Products' defense business which were partially offset by the decline in the automotive business.

Three months ended June 30 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Total
Gross Profit	**2018**	**5,757**	**6,701**	**12,458**
	2017	5,575	6,193	11,768
Increase (decrease) $		182	508	690
% of net sales	**2018**	**15.8**	**14.8**	**15.2**
	2017	17.1	15.0	15.9

Six months ended June 30 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Total
Gross Profit	**2018**	**11,188**	**13,935**	**25,123**
	2017	11,249	11,615	22,864
Increase (decrease) $		(61)	2,320	2,259
% of net sales	**2018**	**15.4**	**15.5**	**15.5**
	2017	17.7	14.4	15.9

Rubber Solutions

Gross profit at Rubber Solutions for the three month period ended June 30, 2018 increased by 3.3% to $5,757 (15.8% of net sales) from $5,575 (17.1% of net sales) in the comparable period in 2017. The increase was due to higher volume (measured in pounds shipped) and partly offset by higher raw material costs. In addition, training costs for newly added resources in anticipation of increased volume for the remainder of the year and increased freight costs also negatively impacted gross profit in the quarter.

For the six month period ended June 30, 2018, gross profit was relatively flat at $11,188 (15.4% of net sales) compared to $11,249 (17.7% of net sales) in the same period in 2017. Increased costs, in raw material, freight, and training, and an unforeseen maintenance occurrence (in the first quarter of 2018), offset the higher volume discussed above. In addition, higher labour costs as a result of provincial changes in the Ontario Employment Standards Act further dampened gross profit.

Engineered Products

RESULTS OF OPERATIONS – Second quarter ended June 30, 2018 compared to 2017

Gross profit in the Engineered Products segment for the three month period ended June 30, 2018 increased by 8.2% to $6,701 (14.8% of net sales) from $6,193 (15.0% of net sales) in the comparable period in 2017. For the six month period ended June 30, 2018, gross profit in the Engineered Products segment increased by 20.0% to $13,935 (15.5% of net sales) from $11,615 (14.4% of net sales) in the comparable period in 2017.

The increase in gross profit for the three and six month periods ended June 30, 2018 in Engineered Products compared to the same periods in 2017 was due to higher net sales in the defense business' product lines, as discussed above. This was partly offset in the automotive business due to lower gross profit as a result of increased rubber and other input costs.

OPERATING EXPENSES

Consolidated operating expenses for the three month period ended June 30, 2018 increased by $1,104 over the comparable period in 2017, to $8,173. The increases were primarily due to increased administration costs, including compensation and selling expenses, of $601 and an unrealized foreign exchange loss of $405 compared to a gain of $22 in the comparable period in 2017.

Consolidated operating expenses for the six month period ended June 30, 2018 increased by $2,245 over the comparable period in 2017, to $16,071. The increases were primarily due to increased administration costs, including compensation and selling expenses, of $1,355 and an unrealized foreign exchange loss of $786 compared to a gain of $118 in the comparable period in 2017.

As a percent of net sales, operating expenses were in line with 2017.

Three months ended June 30 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	**2018**	**2,061**	**4,348**	**1,764**	**8,173**
	2017	2,101	3,888	1,080	7,069
Increase (decrease) $		(40)	460	684	1,104
% of net sales	**2018**	**5.7**	**9.6**	**N/A**	**10.0**
	2017	6.5	9.4	N/A	9.6

Six months ended June 30 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	**2018**	**4,101**	**8,724**	**3,246**	**16,071**
	2017	4,008	7,951	1,867	13,826
Increase $		93	773	1,379	2,245
% of net sales	**2018**	**5.7**	**9.7**	**N/A**	**9.9**
	2017	6.3	9.9	N/A	9.6

Rubber Solutions

Operating expenses at Rubber Solutions for both the three and six month periods ended June 30, 2018 were in line with the spending in the comparable periods in 2017.

Engineered Products

At Engineered Products, operating expenses for the three and six month periods ended June 30, 2018 increased $460 and $773, respectively, compared to the same period in 2017. The increases for both periods were primarily due to higher administrative costs of $382 and $805, respectively, resulting from increased headcount for both salaried and commission employees.

Unallocated Corporate Costs

Unallocated corporate costs for the three month period ended June 30, 2018 increased by $684 compared to the same period in 2017, which was principally due to a foreign exchange loss of $322 recognized in the second quarter of 2018 compared to a foreign exchange gain of $35 in the same period in 2017. In addition, administrative costs increased by $327.

For the six month period ended June 30, 2018, unallocated corporate costs increased by $1,379 compared to the same period in 2017, which was principally due to foreign exchange loss of $692 recognized compared to a foreign exchange gain of $121 in the same period in 2017. In addition, administration costs increased by $566.

RESULTS OF OPERATIONS – Second quarter ended June 30, 2018 compared to 2017

FINANCE COST

Three months ended June 30 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Finance cost	**2018**	**1,175**	**1**	**(505)**	**671**
	2017	1,179	—	(398)	781
Increase (decrease) $		(4)	1	(107)	(110)
% of net sales	**2018**	**3.2**	**—**	**N/A**	**0.8**
	2017	3.6	—	N/A	1.1

Six months ended June 30 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Finance cost	**2018**	**2,346**	**1**	**(1,177)**	**1,170**
	2017	2,346	—	(833)	1,513
Increase (decrease) $		—	1	(344)	(343)
% of net sales	**2018**	**3.2**	—	**N/A**	**0.7**
	2017	3.7	—	N/A	1.1

Finance costs in the three and six month periods ended June 30, 2018 were $671 (2017: $781), and $1,170 (2017: $1,513) respectively, reflecting the favorable impact of the interest rate swap, continued reduction of term loan balances and partially offset by higher short term interest rates.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $954 in the three month period ended June 30, 2018 (2017: $738) for an effective income tax rate of 26.4% (18.8% in 2017).

The Company recorded an income tax expense of $2,024 in the six month period ended June 30, 2018 (2017: $1,469) for an effective income tax rate of 25.7% (19.5% in 2017).

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

NET INCOME AND EARNINGS PER SHARE

Net income totaled $2,660 for the three month period ended June 30, 2018 compared to $3,180 for the comparative period in 2017. The basic net earnings per share in the quarter was $0.11 (2017 - $0.14) and fully diluted net earnings in the quarter were $0.11 (2017 - $0.14).

Net income totaled $5,858 for the six month period ended June 30, 2018 compared to $6,056 for the comparative period in 2017. The basic net earnings per share in the quarter was $0.25 (2017 - $0.26) and fully diluted net earnings in the quarter were $0.25 (2017 - $0.26).

The decrease for both the three and six month periods ended June 30, 2018, compared to the comparative periods in 2017, was primarily attributable to higher operating costs, and increased income tax expenses, partly offset by higher gross profits, for the reasons discussed above.

QUARTERLY INFORMATION

In thousands of US dollars			Net income per share	
Quarter Ended	Net Sales	Net Income	Basic	Diluted
2018				
June 30, 2018	**81,797**	**2,660**	**0.11**	**0.11**
March 31, 2018	80,549	3,198	0.14	0.14
2017				
December 31, 2017	74,214	3,772	0.17	0.16
September 30, 2017	71,837	2,804	0.12	0.12
June 30, 2017	73,877	3,180	0.14	0.14
March 30, 2017	69,927	2,875	0.12	0.12
2016				
December 31, 2016	63,040	1,401	0.06	0.06
September 30, 2016	66,666	3,115	0.13	0.13

Items impacting comparability of quarters

- There were no items impacting comparability during the first and the second quarter of 2018.
- There were no items impacting comparability for all the quarters in 2017.
- The fourth quarter of 2016 was impacted by the write-off of the convertible promissory note in other assets of $275 and $48 of restructuring costs.
- The third quarter of 2016 was impacted by $34 of restructuring costs.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its 2018 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 (2017: $60 million). No amount was drawn against this facility at June 30, 2018.

For the six month period ended June 30, 2018, $1,536 of cash was provided by operations, (2017: $1,333), $2,746 (2017: $3,385) was used in investing activities and $4,036 (2017: $4,326) was used in financing activities. Cash and cash equivalents decreased by $5,281 from $17,748 to $12,467 adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

For the six months ended June 30, 2018, cash provided by operating activities increased $203 compared to the same period in 2017. The increase was due to lower net income of $198, higher non-cash expenses of $1,341, higher income taxes paid of $1,405, lower interest paid of $177 and lower cash used for working capital of $288.

Cash used for working capital for the six months ended June 30, 2018 decreased to $10,453 (2017: $10,741) as a result of the following factors:

- Trade receivables increased by $7,549. Of the increase in trade receivables, $4,003 was attributable to Rubber Solutions which was consistent with higher net sales and $3,546 to Engineered Products which was due to higher net sales in the Engineered Products' defense business and the late payment under a contract;
- Inventory increased by $5,293; of which $1,594 was at Rubber Solutions due to higher volume as well as increased raw material costs, and $3,699 at Engineered Products' automotive business to support the launch of a new replacement program and a result of increased rubber costs;
- Prepaid expenses increased by $259;
- Accounts payable increased by $4,133 principally due to higher raw material purchases and expenses, as well as timing of certain payments and accruals; and
- Other provisions decreased by $1,485 as a result of the exercise of vested restricted stock units.

Investing Activities

Property, Plant and Equipment

For the six month period ended June 30, 2018, the following investments were made:

- Rubber Solutions invested $709 in property, plant and equipment. Of this, $257 was invested in growth initiatives and the remaining spend was to replace existing property, plant and equipment; and

- Engineered Products invested $1,371 to support growth initiatives and to purchase replacement machinery and equipment.

Intangible assets

For the quarter ended June 30, 2018, the Company invested $659 in intangible assets primarily due to capitalizing certain eligible product development costs.

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), a CAD $ term loan of approximately CAD $5 million and an accordion feature of up to an additional $50 million of availability, upon the satisfaction of customary conditions for such features. The maturity dates of the revolving credit facility and the term loan are December 2020, while the maturity date of the CAD $ term loan is October 2018.

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

During the quarter, the required principal repayments of $1,003 (2017: $1,000) were made pursuant to the term loans under the credit facility.

The Company paid dividends of $1,271 during the quarter (2017: $1,214).

Government assistance

During the second quarter of 2018, the Company recognized grants of $25 (2017: $33) to support certain initiatives which were offset against expenses; year-to-date $83 (2017: $50).

Scientific research and investment tax credits of $86 (2017: $35) were recognized in the quarter, research and development costs were reduced accordingly; year-to-date $196 (2017: $99).

Dividends

A quarterly dividend of $0.07 per share was declared on June 30, 2018 and paid on July 16, 2018. Total annual dividends declared during 2017 were $0.28 per common share.

Outstanding shares

As at August 13, 2018 the Company had 23,430,862 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

Included in the operating lease commitments was a rental agreement for corporate office space between the Company and a company controlled by the Chairman of the Company. The monthly lease rate approximates fair market rental value. During the second quarter of 2018, the Company paid rent for the corporate office of $35 (2017: $33); year-to-date $71 (2017: $78).

During the second quarter of 2018, the Company paid fees for the use of a facility in South Carolina of approximately $6 (2017: $5); year-to-date $12 (2017: $10) to a company in which the Chairman is an officer.

In 2014, the Company provided a share purchase loan of CAD $1,000 to the President to purchase common shares of the Company. This loan is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or November 24, 2019. In 2016, the Company provided share purchase loans of $372 (CAD $250 each) to the new Chief Financial Officer and the former Senior Executive Vice President, Corporate. In 2017, the outstanding share purchase loan of $200 (CAD $250) was repaid in full by the former Senior Executive Vice President, Corporate. The loan for the Chief Financial Officer is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or December 20, 2021. In the first quarter of 2018, the Company provided a share purchase loan of $392 (CAD $500) to the new Chief Operating Officer. This loan is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or March 28, 2023. All share purchase loans bear interest at 1% annually with full recourse and interest is due and payable semi-annually. In total, 161,300 shares of the Company having a fair value of $1,901 were pledged as collateral on these three loans. At June 30, 2018, the promissory notes of $1,331, including accrued interest of $6, were included in other assets. During the quarter, interest of $5 (2017: $7) was paid.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies are provided in Note 3 to the annual consolidated financial statements for the year ended December 31, 2017 and have been applied consistently to all periods presented in these condensed consolidated financial statements.

The accounting policies have been applied consistently by entities within the Group.

Recently adopted accounting standards and policies

The Company has initially adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), IFRS 9, Financial Instruments ("IFRS 9") and amendments made to Share-Based Payments ("IFRS 2"), effective January 1, 2018.

IFRS 15, Revenue from Contracts with Customers

The Company adopted IFRS 15 using the full retrospective approach. The adoption of the standard did not result in any restatement of previously reported results and did not have a material impact on the consolidated financial statements. The following should be read as a modification to the significant accounting policies in note 3 of the Company's annual audited consolidated financial statements for the year ended December 31, 2017.

Revenue Recognition Policy

Revenue recognition policies under the new standard are substantially consistent with prior reporting periods. The Company recognizes net sales primarily from two categories of goods and services: production of finished goods and tolling. Revenue for production of finished goods is recognized at the point in time control of the goods is transferred to the customer. Control of finished goods production transfers when the goods are shipped from the Company's manufacturing facilities to the customer. Revenue for tolling services is recognized over time as value is added to the raw materials which are controlled and provided by the customer.

Disclosures related to the nature, amount, timing and uncertainty of the Company's revenues and cash flows arising from contracts with customers have been included in the consolidated financial statements, with comparative information, including a breakdown of the Company's revenues between production and tolling.

IFRS 9, Financial Instruments

The adoption of IFRS 9 did not have a material impact on the consolidated financial statements. IFRS 9 includes an accounting policy choice between deferring the adoption of the new hedge accounting standards under IFRS 9 and continuing with the current IAS 39 hedge accounting standards. The Company has decided to continue to apply IAS 39 hedge accounting standards. The following should be read as a modification to the significant accounting policies in note 3 of the Company's annual audited consolidated financial statements for the year ended December 31, 2017.

(a) Financial assets and liabilities

The Company recognizes financial assets and financial liabilities initially at fair value and subsequently measures these at either fair value or amortized cost based on their classification under IFRS 9 as described below:

Fair value through profit or loss (FVTPL):

Financial assets and financial liabilities purchased or incurred, respectively, with the intention of generating earnings in the near term, and derivatives other than cash flow hedges, are classified as FVTPL. This category includes cash and cash equivalents, and derivative assets and derivative liabilities that do not qualify for hedge accounting. For items classified as FVTPL, the Company initially recognizes such financial assets on the consolidated balance sheet at fair value and recognizes subsequent changes in the consolidated statement of operations. Transaction costs incurred are expensed in the consolidated statement of operations. The Company does not currently hold any liabilities designated as FVTPL.

Fair value through other comprehensive income (FVTOCI):

This category includes the Company's investments in equity securities. Subsequent to initial recognition, they are measured at fair value on the consolidated balance sheet and changes therein are recognized in other comprehensive income. When an investment is derecognized, the accumulated gain or loss in other comprehensive income is transferred to the statement of operations.

Amortized cost:

The Company classifies financial assets held to collect contractual cash flows at amortized cost, including trade and other receivables. The Company initially recognizes the carrying amount of such assets on the consolidated balance sheet at fair value plus directly attributable transaction costs, and subsequently measures these at amortized cost using the effective interest rate method, less any impairment losses.

Other financial liabilities:

This category is for financial liabilities that are not classified as FVTPL and includes trade and other payables and long-term debt. These financial liabilities are recorded at amortized cost on the consolidated balance sheet.

(b) Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. The ECL model is used in determining the allowance for doubtful accounts as it relates to trade and other receivables. The existing model aligns with the simplified approach under IFRS 9, which measures lifetime ECL and forward-looking information. The Company's allowance is determined by historical experiences, and considers factors including the aging of the balances, the customer's credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets/location of customers. The adoption of IFRS 9 did not have a material impact on the Company's policy for assessing impairment of financial assets.

(c) Derivative financial instruments

The Company uses derivate financial instruments as described in note 8 of the financial statements which do not meet the criteria for hedge accounting.

Recently issued accounting standards

The IASB issued the following amendments to existing standards:

IFRS 16, Leases

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. The standard applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard removes the distinction between operating and finance leases with assets and liabilities recognized in respect of all leases. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of IFRS 16 on the consolidated financial statements. The extent of the impact has not yet been determined.

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 June 30, 2018, the Company had contracts to sell US $19,599 from July 2018 to March 2019 for CAD $25,039. The fair value of these contracts, representing an unrealized loss of US $584 was recorded in the statement of financial position included in trade and other payables, including derivatives and changes in fair value recorded on the statement of income as other income (expenses).

At December 31, 2017, the Company had contracts to sell US $13,272 from January 2018 to September 2018 for CAD $16,966. The fair value of these contracts, representing an unrealized gain of US $252 was recorded in the statement of financial position included in trade and other receivables, including derivatives and changes in fair value recorded on the statement of income as other income.

Interest rate swap

During the first quarter of 2018, the Company entered into an interest rate swap agreement for a notional amount of $35 million. 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 second quarter of 2018, the gain of the swap agreements was $14 and $14 was received; (2017: expense of $81 and $81 was paid); year-to-date $1 and $1 was received (2017: expense of $92 and $92 was paid).

For the quarter ended June 30, 2018, the fair value of this agreement, representing a gain of $639, was recorded on the statement of financial position included in loans and borrowings and changes in fair value are recorded on the statement of income as finance costs.

For the period ended December 31, 2017, the fair value of the previous swap agreement, representing a gain of $275, was recorded on the statement of financial position included in loans and borrowings and changes in fair value are recorded on the statement of income as finance costs.

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

OUTLOOK

The implementation of the AirBoss operating system continues to be a high priority for the Company. Uncertainty with respect to global trading relationships is leading to continued raw material volatility and changing confidence levels in demand with some of our customers. The business is also experiencing a systemic trend toward higher freight costs. The expected operational improvements are key to reducing the negative impacts of these headwinds. The current pipeline remains solid and broad-based across our business segments and among the sectors we serve. With its healthy balance sheet and strengthened leadership team, the Company maintains a strong position to serve its customers and take advantage of growth opportunities.

In the Rubber Solutions segment, the pipeline of business remains strong and the segment is experiencing meaningful gains from the continued implementation of improvement initiatives. Despite raw material pricing volatility, market-wide freight cost increases and the uncertainty associated with global trade in general, the Company remains committed to working with its customers to minimize the impact of these challenges while optimizing its upside.

In the Engineered Products segment, management is continuing the implementation of operational and commercial improvements in its automotive business, with the aim of securing new multi-year contracts over the medium term. Despite challenges associated with higher input costs and an evolving product mix, these initiatives are expected to lead to improvements starting in 2019. The defense business is expected to continue to perform strongly, with increased tendering activity worldwide leading to further realizable sales opportunities. Although some level of uncertainty as to the timing and size of orders, tenders and awards is expected, particularly given the ever-changing geopolitical landscape and associated shifting priorities, the defense business is well positioned with its current pipeline, capacity and execution experience to deliver strong results in 2018 and beyond.

August 13, 2018

Gren Schoch
Chairman and Chief Executive Officer

Daniel Gagnon
Chief Financial Officer

Condensed Consolidated Statement of Financial Position

Unaudited

In thousands of US dollars	*Note*	**June 30, 2018**	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents		**12,467**	17,748
Trade and other receivables, including derivatives	*4, 8*	**58,721**	51,778
Prepaid expenses		**3,448**	3,205
Inventories	*5*	**43,584**	38,291
Current income taxes receivable	*12*	**2,055**	1,104
Total current assets		**120,275**	112,126
Non-current assets			
Property, plant and equipment		**57,727**	59,591
Intangible assets		**51,851**	52,782
Other assets	*6*	**1,778**	1,449
Total non-current assets		**111,356**	113,822
Total assets		**231,631**	225,948
LIABILITIES			
Current liabilities			
Loans and borrowings	*7*	**5,769**	6,398
Trade and other payables, including derivatives	*8*	**36,007**	31,942
Provisions	*9*	**258**	1,242
Total current liabilities		**42,034**	39,582
Non-current liabilities			
Loans and borrowings	*7*	**61,143**	62,859
Employee benefits	*14*	**527**	560
Provisions	*9*	**770**	639
Deferred income tax liabilities	*12*	**5,647**	5,147
Total non-current liabilities		**68,087**	69,205
Total liabilities		**110,121**	108,787
EQUITY			
Share capital	*10*	**39,629**	37,860
Contributed surplus	*10*	**1,314**	2,067
Retained earnings		**80,567**	77,234
Total equity		**121,510**	117,161
Total liabilities and equity		**231,631**	225,948

The notes on ***pages 18 to 28 are an*** *integral part of these condensed consolidated financial statements.*

On behalf of the Board

P.G. Schoch
Director

Robert L. McLeish
Director

Condensed Consolidated Statement of Profit and Comprehensive Income

Unaudited

For the three and six month periods ended June 30 *In thousands of US dollars*	*Note*	**Three month** **2018**	2017	**Six month** **2018**	2017
Net sales		**81,797**	73,877	**162,346**	143,804
Cost of sales		**(69,339)**	(62,109)	**(137,223)**	(120,940)
Gross profit		**12,458**	11,768	**25,123**	22,864
General and administrative expenses		**(5,809)**	(5,319)	**(11,419)**	(10,259)
Selling and marketing expenses		**(1,376)**	(1,265)	**(2,746)**	(2,549)
Research and development expenses	*13*	**(583)**	(502)	**(1,120)**	(1,123)
Other income (expenses)		**(405)**	17	**(786)**	105
Operating expenses		**(8,173)**	(7,069)	**(16,071)**	(13,826)
Results from operating activities		**4,285**	4,699	**9,052**	9,038
Finance costs	*7,14*	**(671)**	(781)	**(1,170)**	(1,513)
Profit before income tax		**3,614**	3,918	**7,882**	7,525
Income tax expense	*12*	**(954)**	(738)	**(2,024)**	(1,469)
Profit and total comprehensive income for the period		**2,660**	3,180	**5,858**	6,056
Earnings per share					
Basic	*11*	**0.11**	0.14	**0.25**	0.26
Diluted	*11*	**0.11**	0.14	**0.25**	0.26

The notes on pages 18 to 28 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity

Unaudited

	Attributable to equity holders of the Company			
In thousands of US dollars	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance at January 1, 2017	37,826	1,899	69,558	109,283
Profit and total comprehensive income for the period	—	—	6,056	6,056
Contributions by and distributions to owners				
Stock options expensed	—	146	—	146
Stock options exercised	12	(60)	—	(48)
Dividends to equity holders	—	—	(2,413)	(2,413)
Total contributions by and distributions to owners	12	86	(2,413)	(2,315)
Balance at June 30, 2017	37,838	1,985	73,201	113,024

Balance at January 1, 2018	37,860	2,067	77,234	117,161
Profit and total comprehensive income for the period	—	—	5,858	5,858
Contributions by and distributions to owners				
Stock options expensed	—	99	—	99
Stock options exercised	1,786	(852)	—	934
Share repurchases	(17)	—	—	(17)
Dividends to equity holders	—	—	(2,525)	(2,525)
Total contributions by and distributions to owners	1,769	(753)	(2,525)	(1,509)
Balance at June 30, 2018	39,629	1,314	80,567	121,510

*The notes on **pages 18 to 28 are an integral** part of these condensed consolidated financial statements.*

Condensed Consolidated Statement of Cash Flows

Unaudited

For the six month period ended June 30 In thousands of US dollars	*Note*	**2018**	2017
Cash flows from operating activities			
Profit for the six month period ended June 30		**5,858**	6,056
Adjustments for:			
Depreciation		**3,951**	3,717
Amortization of intangible assets		**1,590**	1,671
Finance costs	*7,14*	**1,170**	1,513
Unrealized foreign exchange loss (gain)		**825**	(195)
Change in fair value of interest rate swap		**(374)**	84
Share-based payment expense	*10*	**813**	330
SRED tax credits		**(196)**	(99)
Current income tax expense	*12*	**1,513**	1,514
Deferred income tax expense (recovery)	*12*	**511**	(45)
Post-retirement benefits expense	*14*	**8**	(5)
Other		**(24)**	(39)
		15,645	14,502
Change in inventories		**(5,293)**	(4,882)
Change in trade and other receivables		**(7,549)**	(6,441)
Change in prepaid assets		**(259)**	(942)
Change in trade and other payables		**4,133**	1,771
Change in provisions		**(1,485)**	(247)
Net change in non-cash or working capital balances		**(10,453)**	(10,741)
Interest paid		**(1,355)**	(1,532)
Income tax paid		**(2,301)**	(896)
Net cash provided by operating activities		**1,536**	1,333
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(2,087)**	(2,855)
Acquisition of intangible assets		**(659)**	(530)
Net cash used in investing activities		**(2,746)**	(3,385)
Cash flows from financing activities			
Repayment of loans and borrowings		**(2,006)**	(2,000)
Exercise of stock options (net of withholding taxes)		**934**	—
Issuance of share purchase loans		**(392)**	—
Share repurchases		**(17)**	—
Interest received on share purchase loan		**5**	5
Dividends paid	*10*	**(2,560)**	(2,331)
Net cash used in financing activities		**(4,036)**	(4,326)
Net decrease in cash and cash equivalents		**(5,246)**	(6,378)
Cash and cash equivalents at January 1		**17,748**	27,971
Effect of exchange rate fluctuations on cash held		**(35)**	13
Cash and cash equivalents at June 30		**12,467**	21,606

The notes on pages 18 to 28 are an integral part of these condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements ("CFS")

For the three and six month periods ended June 30, 2018 and June 30, 2017
(Amounts in thousands of US dollars, except per share amounts, unless otherwise specified)

NOTE 1 REPORTING ENTITY

AirBoss of America Corp. ("the Company") is a public company listed on the Toronto Stock Exchange, incorporated and domiciled in Ontario. The address of the Company's registered office is 16441 Yonge Street, Newmarket, Ontario, Canada. The condensed consolidated financial statements of the Company as at and for the three and six month periods ended June 30, 2018 comprise the Company and its subsidiaries (together referred to as the "Group" and separately as "Group entities"). The Group has operations in Canada and the US and is involved primarily in the manufacture of high quality rubber-based products to resource, military, automotive and industrial markets (see Note 15).

NOTE 2 BASIS OF PREPARATION

Statement of compliance

The condensed consolidated interim financial statements should be read in conjunction with the Company's 2017 audited annual consolidated financial statements and accompanying notes.

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

The condensed consolidated financial statements were authorized for issue by the Board of Directors on August 13, 2018.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies are provided in Note 3 to the annual consolidated financial statements for the year ended December 31, 2017 and have been applied consistently to all periods presented in these condensed consolidated financial statements.

The accounting policies have been applied consistently by entities within the Group.

Recently adopted accounting standards and policies

The Company has initially adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), IFRS 9, Financial Instruments ("IFRS 9") and amendments made to Share-Based Payments ("IFRS 2"), effective January 1, 2018.

IFRS 15, Revenue from Contracts with Customers

The Company adopted IFRS 15 using the full retrospective approach. The adoption of the standard did not result in any restatement of previously reported results and did not have a material impact on the consolidated financial statements. The following should be read as a modification to the significant accounting policies in note 3 of the Company's annual audited consolidated financial statements for the year ended December 31, 2017.

Revenue Recognition Policy

Revenue recognition policies under the new standard are substantially consistent with prior reporting periods. The Company recognizes net sales primarily from two categories of goods and services: production of finished goods and tolling. Revenue for production of finished goods is recognized at the point in time control of the goods is transferred to the customer. Control of finished goods production transfers when the goods are shipped from the Company's manufacturing facilities to the customer. Revenue for tolling services is recognized over time as value is added to the raw materials which are controlled and provided by the customer.

Disclosures related to the nature, amount, timing and uncertainty of the Company's revenues and cash flows arising from contracts with customers have been included in the consolidated financial statements, with comparative information, including a breakdown of the Company's revenues between production and tolling.

IFRS 9, Financial Instruments

The adoption of IFRS 9 did not have a material impact on the consolidated financial statements. IFRS 9 includes an accounting policy choice between deferring the adoption of the new hedge accounting standards under IFRS 9 and continuing with the current IAS 39 hedge accounting standards. The Company has decided to continue to apply IAS 39 hedge accounting standards. The following should be read as a modification to the significant accounting policies in note 3 of the Company's annual audited consolidated financial statements for the year ended December 31, 2017.

(a) Financial assets and liabilities

The Company recognizes financial assets and financial liabilities initially at fair value and subsequently measures these at either fair value or amortized cost based on their classification under IFRS 9 as described below:

Fair value through profit or loss (FVTPL):

Financial assets and financial liabilities purchased or incurred, respectively, with the intention of generating earnings in the near term, and derivatives other than cash flow hedges, are classified as FVTPL. This category includes cash and cash equivalents, and derivative assets and derivative liabilities that do not qualify for hedge accounting. For items classified as FVTPL, the Company initially recognizes such financial assets on the consolidated balance sheet at fair value and recognizes subsequent changes in the consolidated statement of operations. Transaction costs incurred are expensed in the consolidated statement of operations. The Company does not currently hold any liabilities designated as FVTPL.

Fair value through other comprehensive income (FVTOCI):

This category includes the Company's investments in equity securities. Subsequent to initial recognition, they are measured at fair value on the consolidated balance sheet and changes therein are recognized in other comprehensive income. When an investment is derecognized, the accumulated gain or loss in other comprehensive income is transferred to the statement of operations.

Amortized cost:

The Company classifies financial assets held to collect contractual cash flows at amortized cost, including trade and other receivables. The Company initially recognizes the carrying amount of such assets on the consolidated balance sheet at fair value plus directly attributable transaction costs, and subsequently measures these at amortized cost using the effective interest rate method, less any impairment losses.

Other financial liabilities:

This category is for financial liabilities that are not classified as FVTPL and includes trade and other payables and long-term debt. These financial liabilities are recorded at amortized cost on the consolidated balance sheet.

(b) Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. The ECL model is used in determining the allowance for doubtful accounts as it relates to trade and other receivables. The existing model aligns with the simplified approach under IFRS 9, which measures lifetime ECL and forward-looking information. The Company's allowance is determined by historical experiences, and considers factors including the aging of the balances, the customer's credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets/location of customers. The adoption of IFRS 9 did not have a material impact on the Company's policy for assessing impairment of financial assets.

(c) Derivative financial instruments

The Company uses derivate financial instruments as described in note 8 of the financial statements which do not meet the criteria for hedge accounting.

Recently issued accounting standards

The IASB issued the following amendments to existing standards:

IFRS 16, Leases

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. The standard applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard removes the distinction between operating and finance leases with assets and liabilities recognized in respect of all leases. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of IFRS 16 on the consolidated financial statements. The extent of the impact has not yet been determined.

NOTE 4 TRADE AND OTHER RECEIVABLES

In thousands of US dollars	**June 30, 2018**	December 31, 2017
Trade receivables	**58,063**	50,870
Less: allowance for doubtful accounts	**(126)**	(185)
	57,937	50,685
Other receivables	**784**	1,093
	58,721	51,778

Impairment losses

The aging of trade receivables at the reporting date was:

	June 30, 2018		December 31, 2017	
In thousands of US dollars	**Gross**	**Impairment**	Gross	Impairment
Within terms	**45,103**	**—**	39,387	—
Past due 0-30 days	**8,808**	**—**	8,935	—
Past due 31-120 days	**4,152**	**(126)**	2,548	(185)
	58,063	**(126)**	50,870	(185)

The continuity of the allowance for doubtful accounts was:

In thousands of US dollars	**June 30, 2018**	December 31, 2017
Balance at January 1	**(185)**	(95)
Impairment loss recognized	**(37)**	(90)
Collected	**96**	—
Balance	**(126)**	(185)

NOTE 5 INVENTORIES

In thousands of US dollars	**June 30, 2018**	December 31, 2017
Raw materials and consumables	**30,925**	26,663
Work in progress	**3,146**	3,657
Finished goods	**9,995**	8,299
Inventory in transit	**1,963**	2,012
	46,029	40,631
Provisions	**(2,445)**	(2,340)
	43,584	38,291

An inventory charge of $105 (2017: $582) was included in cost of sales for the increase in provisions.

NOTE 6 OTHER ASSETS

In thousands of US dollars	Share purchase loans	10% equity investment	Other	Total
Balance at January 1, 2017	1,119	313	133	1,565
Accrued interest	11	—	—	11
Interest paid	(11)	—	—	(11)
Repayment of loan	(193)	—	—	(193)
Effect of movements in exchange rates	71	—	6	77
Balance at December 31, 2017	997	313	139	1,449
Accrued interest	6	—	—	6
Interest paid	(5)	—	—	(5)
New Loan issuances	392	—	—	392
Effect of movements in exchange rates	(59)	—	(5)	(64)
Balance at June 30, 2018	1,331	313	134	1,778

NOTE 7 LOANS AND BORROWINGS

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

During the second quarter of 2018, the Company accrued $603 (2017: $666) and paid $711 (2017: $977) interest expense on term loans under its syndicated credit facilities; year-to-date $1,238 and $1,435 (2017: $1,294 and $1,532), respectively.

NOTE 8 DERIVATIVES NOT MEETING HEDGE ACCOUNTING CRITERIA

Foreign exchange hedge

At June 30, 2018, the Company had contracts to sell US $19,599 from July 2018 to March 2019 for CAD $25,039. The fair value of these contracts, representing an unrealized loss of US $584 was recorded in the statement of financial position included in trade and other payables, including derivatives and changes in fair value recorded on the statement of income as other income (expenses).

At December 31, 2017, the Company had contracts to sell US $13,272 from January 2018 to September 2018 for CAD $16,966. The fair value of these contracts, representing an unrealized gain of US $252 was recorded in the statement of financial position included in trade and other receivables, including derivatives and changes in fair value recorded on the statement of income as other income.

Interest rate swap

During the first quarter of 2018, the Company entered into an interest rate swap agreement for a notional amount of $35 million. 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 second quarter of 2018, the gain of the swap agreements was $14 and $14 was received; (2017: expense of $81 and $81 was paid); year-to-date $1 and $1 was received (2017: expense of $92 and $92 was paid).

For the quarter ended June 30, 2018, the fair value of this agreement, representing a gain of $639, was recorded on the statement of financial position included in loans and borrowings and changes in fair value are recorded on the statement of income as finance costs.

For the period ended December 31, 2017, the fair value of the previous swap agreement, representing a gain of $275, was recorded on the statement of financial position included in loans and borrowings and changes in fair value are recorded on the statement of income as finance costs.

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

NOTE 9 PROVISIONS

In thousands of US dollars	Site restoration	Restricted stock units	Performance awards and Deferred stock units	Lease incentives	Total
Balance at January 1, 2017	74	1,337	105	265	1,781
Provisions accrued during the year	—	329	240	—	569
Payments during the year	—	(549)	—	—	(549)
Amortization during the year	—	—	—	(26)	(26)
Foreign exchange	—	85	21	—	106
Balance at December 31, 2017	74	1,202	366	239	1,881
Provisions accrued during the period	—	316	396	(20)	692
Payments during the period	—	(1,485)	—	—	(1,485)
Foreign Exchange	—	(33)	(27)	—	(60)
Total	74	—	735	219	1,028
Less current portion due within one year	—	—	(211)	(47)	(258)
Non-current balance at June 30, 2018	74	—	524	172	770

No legal provisions are recognized at June 30, 2018 and December 31, 2017.

Restricted Stock Units

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

Restricted stock units	**June 30, 2018**	December 31, 2017	June 30, 2017
January 1	**150,000**	224,000	224,000
Forfeitures	**—**	(15,000)	—
Exercised	**(150,000)**	(59,000)	(58,000)
Balance	**—**	150,000	166,000

During the second quarter of 2018 and year-to-date, 150,000 fully vested restricted stock units were exercised for $1,485 in cash (2017: 58,000 units for $538 in cash). No new restricted stock units were issued and there were no forfeitures in the second quarter of 2018 and 2017. During the second quarter of 2018, the Company did not recognize any employee costs related to the plan (2017: $234); year-to-date $316 (2017: $401) related to the plan.

Performance Awards

The Company has issued certain executives with an aggregate of 123,266 performance awards 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 awards vest three years following the grant date.

Performance stock units	**June 30, 2018**	December 31, 2017	June 30, 2017
January 1	**93,333**	50,680	50,680
New issuances	**29,933**	55,830	49,002
Forfeitures	**—**	(13,177)	(3,911)
Balance	**123,266**	93,333	95,771

During the second quarter of 2018, nil (2017: nil) performance awards were issued. During the second quarter of 2018, the Company recognized as employee costs $125 (2017: $37) related to the plan; year-to-date $192 (2017: $59) related to the plan.

Deferred Stock Units

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

Deferred stock units	**June 30, 2018**	December 31, 2017	June 30, 2017
January 1	**30,005**	11,428	11,428
New issuances	**8,138**	18,577	8,539
Balance	**38,143**	30,005	19,967

At June 30, 2018, independent directors were granted an aggregate of 38,143 DSUs with a fair value of $406 at the date of grant. During the second quarter of 2018, the Company recognized as employee costs $111 (2017: $51) related to DSUs issued under the Omnibus Plan; year-to-date $205 (2017: $93) related to the plan.

NOTE 10 CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital and Contributed Surplus
Issued share capital is as follows:

In thousands of shares	**June 30, 2018**	December 31, 2017	June 30, 2017
January 1	**23,091**	23,074	23,074
Exercise of stock options	**342**	19	14
Share repurchases	**(2)**	(2)	—
Balance	**23,431**	23,091	23,088

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 June 30

	2018	2017
Stock options granted and outstanding	**529,452**	1,028,616

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 share options and assumptions

In Canadian dollars	**March 2018**	November 2017	March 2017
Fair value at grant date	**3.11**	2.26	2.35
Share price at grant date	**12.08**	10.50	11.08
Exercise price	**11.56**	10.98	12.26
Expected volatility (weighted average volatility)	**31.8%**	32.0%	34.2%
Option life (expected weighted average life)	**5 years**	5 years	5 years
Expected dividends	**2.3%**	2.7%	2.5%
Risk-free interest rate (based on government bonds)	**2.1%**	1.7%	1.2%

Stock option expense
During the second quarter of 2018, the Company recognized as employee costs $54 (2017: $69) relating to option grants in general and administrative expenses of the statement of income; year-to-date $100 (2017: $145) relating to option grants in general and administrative expenses of the statement of income.

Dividends
Dividends on common shares were paid to shareholders of record quarterly in 2018 and in 2017 as follows:

		2018		2017
Shareholder of record at:	**CAD $/share**	**Date Paid**	CAD $/share	Date Paid
June 30	**0.07**	**July 16, 2018**	0.07	July 14, 2017
March 31	**0.07**	**April 16, 2018**	0.07	April 14, 2017

The dividend payable at June 30, 2018 was $1,246 (June 30, 2017: $1,245), included in trade and other payables

NOTE 11 EARNINGS PER SHARE

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

	Three month		Six month	
For the three and six month periods ended June 30 *In thousands of US dollars, except share amounts outstanding, per share amounts in US dollars*	**2018**	2017	**2018**	2017
Numerator for basic and diluted earnings per share: Net income	**2,660**	3,180	**5,858**	6,056
Denominator for basic and diluted earnings per share:				
Basic weighted average number of shares outstanding	**23,421**	23,078	**23,272**	23,076
Dilution effect of stock options	**56**	262	**13**	270
Dilution effect of restricted stock units	**—**	123	**—**	106
Dilution effect of deferred stock units	**29**	10	**26**	9
Diluted weighted average number of shares outstanding	**23,506**	23,473	**23,311**	23,461
Net income per share: Basic	**0.11**	0.14	**0.25**	0.26
Diluted	**0.11**	0.14	**0.25**	0.26

For the three and six month periods ended June 30, 2018,154,010 options (2017: 170,200) 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

	Three month		Six month	
For the three and six month periods ended June 30 *In thousands of US dollars*	**2018**	2017	**2018**	2017
Current tax expense:				
Current period	**539**	965	**1,513**	1,541
Adjustment for prior period	**—**	(27)	**—**	(27)
	539	938	**1,513**	1,514
Deferred tax expense:				
Origination and reversal of temporary differences	**415**	(218)	**511**	(63)
Adjustment for prior periods	**—**	18	**—**	18
	415	(200)	**511**	(45)
Total income tax expense	**954**	738	**2,024**	1,469

NOTE 13 GOVERNMENT ASSISTANCE

During the second quarter of 2018, the Company recognized grants of $25 (2017: $33) to support certain initiatives which were offset against expenses; year-to-date $83 (2017: $50).

Scientific research and investment tax credits of $86 (2017: $35) were recognized in the quarter, research and development costs were reduced accordingly; year-to-date $196 (2017: $99).

NOTE 14 POST RETIREMENT BENEFITS

June 30 *In thousands of US dollars*	Executive Supplemental Plan **2018**	2017	Other benefit plan **2018**	2017
The amounts recognized in the income statement are as follows:				
Post-retirement benefits recovery	**—**	—	**(18)**	(15)
Interest cost	**—**	11	**10**	9
Exchange differences	**—**	13	**(25)**	17
Expense	**—**	24	**(33)**	11

During the first quarter of 2017, in advance of the retirement of the executive covered by the Supplemental Plan, the Company reached an agreement with the executive to convert the defined benefit pension promise provided for under the Supplemental Plan into a notional defined contribution account balance of value that was equal to the December 31, 2016 defined benefit balance sheet liability of $1,223 effective January 1, 2017. This notional defined contribution account balance was credited with interest at an agreed rate of 3.75% per annum, until it was paid out. On March 31, 2017 the defined contribution amount of $1,247, which includes interest of $11 and foreign exchange of $13, was paid to the executive, eliminating the liability in full.

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

Defined Contribution Plan

AirBoss Flexible Products Co. ("Flexible") maintains a 401(k) defined contribution plan for its employees. Total contributions and expenses to this plan during the period were $97 (2017: $87); year-to-date $185 (2017: $234)

The AirBoss group of companies in Canada maintains registered retirement savings plan defined contribution plans for their employees. Total contribution and expense to this plan during the period were $74 (2017: $69); year-to-date $143 (2017:$136)

AirBoss Engineered Products Inc. employees are covered under various registered and unregistered defined contribution plans. Total contribution and expense to these plans during the period were $36 (2017: $36); year-to-date $84 (2017: $79)

Multi-Employer Pension Plan

AirBoss Flexible Products ("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 $73 (2017: $69); year-to-date $141 (2017: $139) to the multi-employer pension plan. The unfunded vested benefit ratio was 66.83% at December 31, 2017 (2016: 68.00%). The Steel Workers Pension Trust was in a net deficit at December 31, 2017 and AFP's portion of the deficit was unknown. The collective bargaining agreement requires that AFP contributes $0.40 for each hour worked by eligible employees during the preceding wage month.

NOTE 15 SEGMENTED INFORMATION

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

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

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

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

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

Information about reportable segments Three months ended June 30	Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Segment net sales	**47,515**	39,921	**45,467**	41,489	**—**	—	**92,982**	81,410
Inter-segment sales	**(11,105)**	(7,396)	**(80)**	(137)	**—**	—	**(11,185)**	(7,533)
External net sales	**36,410**	32,525	**45,387**	41,352	**—**	—	**81,797**	73,877
Depreciation and amortization	**1,314**	1,340	**1,457**	1,368	**18**	10	**2,789**	2,718
Finance cost	**1,175**	1,179	**1**	—	**(505)**	(398)	**671**	781
Reportable segment profit before income tax	**2,519**	2,294	**2,351**	2,307	**(1,256)**	(683)	**3,614**	3,918
Income tax expense / (recovery)	**1,122**	744	**585**	623	**(753)**	(629)	**954**	738
Net Income (loss)	**1,397**	1,550	**1,766**	1,684	**(503)**	(54)	**2,660**	3,180
Reportable segment assets[1]	**90,111**	95,725	**128,685**	123,409	**12,835**	9,908	**231,631**	229,042
Reportable segment liabilities[1]	**20,842**	22,896	**16,356**	53,909	**72,923**	39,213	**110,121**	116,018
Capital expenditures[2, 3]	**(159)**	885	**1,125**	800	**165**	158	**1,131**	1,843

[1] Comparative figures as at December 31, 2017.
[2] Comparative figures as at June 30, 2017.
[3] $543 of capital expenditures were transferred from Rubber Solutions to Engineered Products in the second quarter of 2018

Information about reportable segments Six months ended June 30	Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Segment net sales	**92,252**	77,761	**90,141**	80,558	**—**	—	**182,393**	158,319
Inter-segment sales	**(19,765)**	(14,377)	**(282)**	(138)	**—**	—	**(20,047)**	(14,515)
External net sales	**72,487**	63,384	**89,859**	80,420	**—**	—	**162,346**	143,804
Depreciation and amortization	**2,647**	2,640	**2,860**	2,735	**34**	19	**5,541**	5,394
Finance cost	**2,346**	2,346	**1**	—	**(1,177)**	(833)	**1,170**	1,513
Reportable segment profit before income tax	**4,739**	4,896	**5,210**	3,664	**(2,067)**	(1,035)	**7,882**	7,525
Income tax expense/(recovery)	**2,139**	1,518	**1,309**	951	**(1,424)**	(1,000)	**2,024**	1,469
Net income (loss)	**2,600**	3,378	**3,901**	2,713	**(643)**	(35)	**5,858**	6,056
Reportable segment assets[1]	**90,111**	95,725	**128,685**	123,409	**12,835**	9,908	**231,631**	229,042
Reportable segment liabilities[1]	**20,842**	22,896	**16,356**	53,909	**72,923**	39,213	**110,121**	116,018
Capital expenditures[2]	**709**	1,682	**1,829**	1,510	**208**	193	**2,746**	3,385

[1] Comparative figures as at December 31, 2017.
[2] Comparative figures as at June 30, 2017.

Geographical segments

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

In presenting information on the basis of geographical segments, segment net sales is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Non-current assets include property, plant and equipment, software, goodwill, future income taxes and other assets.

	Net Sales Three months ended June 30		Net Sales Six months ended June 30		Non-current assets June 30		Non-current assets December 31, 2017
In thousands of US dollars	**2018**	2017	**2018**	2017	**2018**	2017	
Canada	**12,300**	13,140	**22,019**	24,017	**44,791**	45,393	45,450
United States	**54,450**	52,956	**115,190**	104,043	**66,565**	69,959	68,372
Other countries	**15,047**	7,781	**25,137**	15,744	**—**	—	—
	81,797	73,877	**162,346**	143,804	**111,356**	115,352	113,822

Major customers

Net sales from one customer represent approximately 8% (2017: 9%) of the Group's total net sales. Five customers represented 30% (2017: 30%) of the Company's total net sales.

Major products

In thousands of US dollars	Three months ended June 30		Six months ended June 30	
	2018	2017	**2018**	2017
Rubber Solutions				
Tolling	**2,132**	2,171	**4,000**	4,068
Mixing	**26,760**	21,390	**53,593**	43,058
Industrial	**7,517**	8,964	**14,894**	16,258
	36,409	32,525	**72,487**	63,384
Engineered Products				
Defense	**11,537**	7,760	**22,492**	12,675
Automotive	**33,851**	33,592	**67,367**	67,745
	45,388	41,352	**89,859**	80,420
Total	**81,797**	73,877	**162,346**	143,804

NOTE 16 RELATED PARTIES

Transactions with Related Parties

Included in the operating lease commitments was a rental agreement for corporate office space between the Company and a company controlled by the Chairman of the Company. The monthly lease rate approximates fair market rental value. During the second quarter of 2018, the Company paid rent for the corporate office of $35 (2017: $33); year-to-date $71 (2017: $78).

During the second quarter of 2018, the Company paid fees for the use of a facility in South Carolina of approximately $6 (2017: $5); year-to-date $12 (2017: $10) to a company in which the Chairman is an officer.

In 2014, the Company provided a share purchase loan of CAD $1,000 to the President to purchase common shares of the Company. This loan is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or November 24, 2019. In 2016, the Company provided share purchase loans of $372 (CAD $250 each) to the new Chief Financial Officer and the former Senior Executive Vice President, Corporate. In 2017, the outstanding share purchase loan of $200 (CAD $250) was repaid in full by the former Senior Executive Vice President, Corporate. The loan for the Chief Financial Officer is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or December 20, 2021. In the first quarter of 2018, the Company provided a share purchase loan of $392 (CAD $500) to the new Chief Operating Officer. This loan is due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or March 28, 2023. All share purchase loans bear interest at 1% annually with full recourse and interest is due and payable semi-annually. In total, 161,300 shares of the Company having a fair value of $1,901 were pledged as collateral on these three loans. At June 30, 2018, the promissory notes of $1,331, including accrued interest of $6, were included in other assets. During the quarter, interest of $5 (2017: $7) was paid.

NOTE 17 RECLASSIFICATION OF COMPARATIVE AMOUNTS

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

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