AIRBOSS OF AMERICA CORP.

2017 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 8, 2017 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, 2017 and the MD&A and Audited Consolidated Financial Statements and Notes for the year ended December 31, 2016. 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 STATEMENTS

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 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.

Forward-looking statements 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 statements involve 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 those forward-looking statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements, including without limitation: impact of general economic conditions; its 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 caused by it 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 statements.

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 statements. All subsequent written and oral forward-looking statements 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 these forward-looking statements 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.

Q2 2017 Highlights

(In US dollars)

- Quarterly dividend paid of C$0.07 per common share.
- Basic and diluted EPS of $0.14.
- Volume for the Rubber Solutions segment increased by 18.1% compared to 2016.

Selected Financial Information

In thousands of US dollars, except share data	Three months ended June 30 (unaudited)		Six months ended June 30 (unaudited)	
	2017	2016	**2017**	2016
Financial results:				
Net sales	**73,877**	67,455	**143,804**	137,922
Net income	**3,180**	4,965	**6,056**	9,306
Net income per share (US$)				
– Basic	**0.14**	0.22	**0.26**	0.40
– Diluted	**0.14**	0.21	**0.26**	0.39
EBITDA[1]	**7,419**	8,836	**14,432**	18,065
Net cash provided by operating activities	**3,566**	13,424	**1,333**	12,493
Dividends declared per share (C$)	**0.07**	0.065	**0.14**	0.125
Capital expenditures	**1,843**	494	**3,385**	3,191
Financial position:	**June 30, 2017**			December 31, 2016
Total assets	**229,042**			225,118
Term loan and other debt	**71,451**			73,206
Shareholders' equity	**113,024**			109,283
Outstanding shares (#) *	**23,088,156**			23,074,183
** at August 8, 2017*				

[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:

RESULTS OF OPERATIONS – Second quarter ended June 30, 2017 compared to 2016

	Three months ended June 30 (unaudited)		Six months ended June 30 (unaudited)	
In thousands of US dollars	**2017**	2016	**2017**	2016
EBITDA:				
Net Income	**3,180**	4,965	**6,056**	9,306
Finance costs	**781**	633	**1,513**	1,507
Depreciation and amortization, including loss on disposal	**2,720**	2,545	**5,394**	5,119
Income tax expense	**738**	693	**1,469**	2,133
EBITDA	**7,419**	8,836	**14,432**	18,065

REPORTING SEGMENT CHANGES

Beginning with the first quarter of 2017, the Company realigned the organizational and governance structures of its business lines 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. The industrial products business is now combined with rubber compounding to form a new Rubber Solutions reporting segment and the automotive and defense businesses were combined to form a new Engineered Products reporting segment. All segmented financial information in this MD&A for the second quarter of 2016 and 2017 reflect this new reporting segment structure.

NET SALES

Consolidated net sales increased by 9.5% and 4.3% for the three and six month periods ended June 30, 2017, respectively. For both periods, increased net sales in Rubber Solutions were partly offset by decreases in the Engineered Products segment. The decrease in net sales at Engineered Products was in the automotive business.

Three months ended June 30 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Total
Net Sales	**2017**	**32,525**	**41,352**	**73,877**
	2016	25,917	41,538	67,455
Increase (decrease) $		6,608	(186)	6,422
Increase (decrease) %		25.5	(0.4)	9.5

Six months ended June 30 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Total
Net Sales	**2017**	**63,384**	**80,420**	**143,804**
	2016	53,588	84,334	137,922
Increase (decrease) $		9,796	(3,914)	5,882
Increase (decrease) %		18.3	(4.6)	4.3

Rubber Solutions

For the three month period ended June 30, 2017, net sales for Rubber Solutions increased 25.5%, to $32,525, from $25,917 in the comparable period in the prior year. The increase in net sales was a result of an 18.1% increase in overall volume (measured in pounds shipped) and an increase of approximately 21.4% in raw material costs that resulted in price increases to customers. The net sales increase was reflected in several sectors, with particular strength in off the road ("OTR"), infrastructure, conveyor belt and track sectors.

Tolling volumes (measured in pounds shipped) for the three month period ended June 30, 2017 increased by 75.5% compared to the same period in 2016. The increase was in the conventional tolling applications, and was partly offset by a decrease in niche tolling volumes. Volume for the non-tolling portion of the business increased by 12.5% compared to the same period 2016, and represented the second consecutive year-over-year quarterly increase.

Net sales for the six month period ended June 30, 2017 in Rubber Solutions increased 18.3%, to $63,384, from $53,588 in 2016. The increase in net sales was as a result of an 8.0% increase in overall volume and an increase of approximately 11.4% in raw material costs that resulted in price increases to customers. The increase in net sales over the comparable six month period was in the OTR, infrastructure, track, and oil & gas sectors, which was partly offset by softness in the chemical sector.

Tolling volumes for the six month period ended June 30, 2017 decreased by 13.5% compared to 2016. The decrease was in conventional tolling applications, and was partly offset by an increase in niche tolling volumes. Non-tolling volume increased 11.9%, compared to 2016, for the six month period ended June 30, 2017.

RESULTS OF OPERATIONS – Second quarter ended June 30, 2017 compared to 2016

Engineered Products

Net sales in the Engineered Products segment for the three and six month periods ended June 30, 2017 declined by 0.4%, to $41,352, and by 4.6% to $80,420, respectively, from the comparable periods in the prior year. Increased net sales in the defense business were more than offset by decreases in the automotive business from the comparable periods in 2016.

Net sales in the automotive business decreased by 8.7% and 8.3% for the three and six months ended June 30, 2017, respectively, compared to the same periods in the prior year. The decreases were largely in the bushings and boot product lines, where certain customer specification changes, including changing components to plastics, resulted in reduced net sales for the period for certain parts. In addition, the previously disclosed completion of a large muffler hanger program in the second half of 2016 further contributed to the decrease when compared to 2016. These lower net sales were partly offset by increased demand in dampers and induction bonding applications.

Net sales in the defense business increased 64.1% in the second quarter of 2017 over last year, particularly in the extreme cold weather boot ("ECW") and gloves product lines. For the six month period ended June 30, 2017, net sales increased 21.4% compared to the comparable period last year, with increases in ECW, gloves and shelters. These higher net sales were partly offset by a decrease in over-boots, following the completion of a contract with final shipments in the first quarter of 2016.

GROSS PROFIT

For the quarter ended June 30, 2017, consolidated gross profit decreased $1,305, to $11,768, compared to the same period in 2016. As a percentage of net sales, gross profit decreased from 19.4% to 15.9%.

For the six months ended June 30, 2017, consolidated gross profit decreased $3,373, to $22,864, compared to the same period in 2016. As a percentage of net sales, gross profit for the period decreased from 19.0% to 15.9%.

For both the three and six month periods ended June 30, 2017, the decreases compared to 2016 were due to the drop in net sales in the automotive business at Engineered Products, as discussed above, which more than offset increases in other business lines.

Three months ended June 30 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Total
Gross Profit	**2017**	**5,575**	**6,193**	**11,768**
	2016	5,512	7,561	13,073
Increase (decrease) $		63	(1,368)	(1,305)
% of net sales	**2017**	**17.1**	**15.0**	**15.9**
	2016	21.3	18.2	19.4

Six months ended June 30 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Total
Gross Profit	**2017**	**11,249**	**11,615**	**22,864**
	2016	10,868	15,369	26,237
Increase (decrease) $		381	(3,754)	(3,373)
% of net sales	**2017**	**17.7**	**14.4**	**15.9**
	2016	20.3	18.2	19.0

Rubber Solutions

Gross profit at Rubber Solutions for the three and six month periods ended June 30, 2017 increased to $5,575 (from $5,512) and $11,249 (from $10,868), respectively, from the comparable periods last year. The increases were due to higher volume and rectification of the negative productivity impacts experienced in the first half of 2016 that related to the 2015 transfer of production from Vermont to Acton Vale, Quebec. These increases were partly offset in the second quarter by higher raw material costs (which resulted in raised prices), increased raw material price volatility (which impacted the Company's timing and ability to fully align input cost increases and customer price increases) and, in some cases, availability of certain specialty raw materials.

As a percentage of net sales, gross profit in the second quarter was 17.1%, down from 21.3% in the comparable period in 2016. For the six month period ended June 30, 2017, gross profit as a percentage of sales was 17.7%, down from 20.3% in 2016. For both the three month and six month periods ended June 30, 2017, the declines compared to last year, were largely due to the impact of higher raw material costs and raw material price volatility as discussed above.

RESULTS OF OPERATIONS – Second quarter ended June 30, 2017 compared to 2016

Engineered Products

Gross profit in the Engineered Products segment for the three month period ended June 30, 2017 was $6,193 (15.0% of net sales) down $1,368 from $7,561 (18.2% of net sales) in 2016. For the six month period ended June 30, 2017, gross profit was $11,615 (14.4% of net sales), down $3,754 from $15,369 (18.2% of net sales) last year.

For both the three and six month periods in 2017, the decline in gross profit and gross profit as a percentage of sales at Engineered Products, compared to 2016, resulted from the decrease in net sales in the automotive business, as discussed above, which more than offset the increased net sales in the defense business.

OPERATING EXPENSES

Consolidated operating expenses for the three and six month period ended June 30, 2017 increased by $287 and $535 over the comparable periods in 2016, to $7,069 and $13,826, respectively. The increases were primarily due to increased compensation and administration costs, as well as a larger unrealized foreign exchange gain booked in 2016 compared to 2017. As a percentage of net sales, operating expenses were in line with 2016.

Three months ended June 30 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	**2017**	**2,101**	**3,888**	**1,080**	**7,069**
	2016	1,953	3,967	862	6,782
Increase (decrease) $		148	(79)	218	287
% of net sales	**2017**	**6.5**	**9.4**	**N/A**	**9.6**
	2016	7.5	9.6	N/A	10.1

Six months ended June 30 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	**2017**	**4,008**	**7,951**	**1,867**	**13,826**
	2016	3,919	8,243	1,129	13,291
Increase (decrease) $		89	(292)	738	535
% of net sales	**2017**	**6.3**	**9.9**	**N/A**	**9.6**
	2016	7.3	9.8	N/A	9.6

Rubber Solutions

Operating expenses at Rubber Solutions increased $148 and $89 for the three and six month periods ended in 2017, respectively, over the comparable periods in 2016, related to increased administration costs.

Engineered Products

At Engineered Products, operating expenses for the three and six month periods ended June 30, 2017 decreased $79 and $292, respectively, compared to 2016, due to lower compensation expenses as a result of rightsizing efforts in the defense business. In addition, costs associated with research and development initiatives, now in the development stage, were capitalized. These were partly offset by certain receivables collected in the automotive business in 2016 that had been previously written off.

Unallocated Corporate Costs

Unallocated corporate costs increased by $218 in the quarter compared to 2016, primarily due to increased compensation costs related to the Company's strategy to invest in shared service resources to further improve the consolidated platform for the benefit of all business units.

For the six month period ended June 30, 2017, unallocated corporate costs increased by $738, due partly to increased compensation costs of $338 and a $242 lower unrealized foreign exchange gain in the first half of 2016 compared to the first half of 2017.

RESULTS OF OPERATIONS – Second quarter ended June 30, 2017 compared to 2016

FINANCE COST

Three months ended June 30 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Finance cost	**2017**	**1,179**	**—**	**(398)**	**781**
	2016	1,203	—	(570)	633
Increase (decrease) $		(24)	—	172	148
% of net sales	**2017**	**3.6**	**0.0**	**N/A**	**1.1**
	2016	4.6	0.0	N/A	0.9

Six months ended June 30 *In thousands of US dollars*		Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Finance cost	**2017**	**2,346**	**—**	**(833)**	**1,513**
	2016	2,356	—	(849)	1,507
Increase (decrease) $		(10)	—	16	6
% of net sales	**2017**	**3.7**	**0.0**	**N/A**	**1.1**
	2016	4.4	0.0	N/A	1.1

Finance costs in the second quarter of 2017 were $781 (2016: $633), and $1,513 (2016: $1,507) for the six month period ended June 30, 2017, reflecting continued reduction of term loan balances which were more than offset by increasing interest rates.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $738 in the three month period ended June 30, 2017 (2016: $693) for an effective income tax rate of 18.8% (12.2% in 2016). The income tax expense recorded in the second quarter of 2016 included a one-time rate adjustment as all US tax losses were utilized and the Company became eligible for a reduced rate as a manufacturer in the US.

The Company recorded an income tax expense of $1,469 in the six month period ended June 30, 2017 (2016: $2,133) for an effective income tax rate of 19.5% (18.6% in 2016).

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 $3,180 for the three month period ended June 30, 2017 compared to $4,965 in 2016. The basic net earnings per share in the quarter was $0.14 (2016 - $0.22) and fully diluted net earnings in the quarter was $0.14 (2016 - $0.21).

Net income totaled $6,056 for the six month period ended June 30, 2017 compared to $9,306 in 2016. The basic net earnings per share in the quarter was $0.26 (2016 - $0.40) and fully diluted net earnings in the quarter was $0.26 (2016 - $0.39).

The decrease for both the three and six month periods ended June 30, 2017, compared to last year, was primarily attributable to lower consolidated gross profit and higher operating costs for the reasons discussed above.

QUARTERLY INFORMATION

In thousands of US dollars			Net income per share	
Quarter Ended	Net Sales	Net Income	Basic	Diluted
2017				
June 30, 2017	**73,877**	**3,180**	**0.14**	**0.14**
March 31, 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
June 30, 2016	67,455	4,965	0.22	0.21
March 30, 2016	70,467	4,341	0.19	0.19
2015				
December 31, 2015	73,576	3,688	0.16	0.16
September 30, 2015	77,513	4,036	0.18	0.17

Items impacting comparability of quarters

- There were no items impacting comparability during the first and second quarter of 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.
- The second quarter of 2016 was impacted by $121 of restructuring costs.
- The first quarter of 2016 was impacted by $94 of restructuring costs.
- The fourth quarter of 2015 was impacted by acquisition costs related to IRT of $66 and restructuring costs of $383.
- The third quarter of 2015 was impacted by acquisition costs related to IRT of $735 and restructuring costs of $751.

Recast reporting segment information

The Company has made changes to its segmented financial reporting to reflect adjustments made in the organizational and governance structures of certain business units, which realign the business units more closely with the nature of the Company's operations. As announced on May 2nd, 2017, the Company will disclose information for two new reporting segments in addition to the corporate segment: Rubber Solutions and Engineered Products.

The newly created Rubber Solutions segment will consist of the former rubber compounding segment plus the Company's industrial products business line (previously included in the Engineered Products segment). The reorganized Engineered Products segment will combine the defense business with the automotive products business that was previously a separate reporting segment. The structure of these two new business segments better reflects the Company's strategic focus on increasing and diversifying its portfolio of finished rubber products, while maintaining market leadership as a rubber-based solutions provider.

Information about reportable segments Three months ended March 31	Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Segment net sales	**34,041**	45,022	**42,836**	38,895	**—**	—	**76,877**	83,917
Inter-segment sales	**(6,368)**	(7,045)	**(42)**	(16)	**—**	—	**(6,410)**	(7,061)
External net sales	**27,673**	37,977	**42,794**	38,879	**—**	—	**70,467**	76,856
Depreciation and amortization includes loss on disposal of property, plant and equipment	**1,263**	1,313	**1,300**	848	**12**	8	**2,575**	2,169
Finance cost	**1,154**	683	**(1)**	(1)	**(279)**	(172)	**874**	510
Reportable segment profit before income tax	**2,236**	2,592	**3,533**	3,445	**12**	(1,658)	**5,781**	4,379
Income tax expense / (recovery)	**1,163**	1,594	**661**	289	**(384)**	(684)	**1,440**	1,199
Net Income (loss)	**1,073**	998	**2,872**	3,156	**396**	(974)	**4,341**	3,180
Reportable segment assets[1]	**82,701**	86,829	**126,981**	91,383	**7,084**	5,364	**216,766**	183,576
Reportable segment liabilities[1]	**16,798**	18,867	**13,590**	13,896	**83,500**	58,540	**113,888**	91,303
Capital expenditures[1]	**1,452**	548	**1,218**	595	**27**	84	**2,697**	1,227

[1] Comparative figures as at March 31, 2015.

Information about reportable segments **Three months ended June 30**	Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Segment net sales	**31,675**	42,231	**41,685**	41,496	**—**	—	**73,360**	83,727
Inter-segment sales	**(5,760)**	(6,661)	**(145)**	(102)	**—**	—	**(5,905)**	(6,763)
External net sales	**25,915**	35,570	**41,540**	41,394	**—**	—	**67,455**	76,964
Depreciation and amortization includes loss on disposal of property, plant and equipment	**1,211**	1,290	**1,321**	832	**11**	9	**2,543**	2,131
Finance cost	**1,204**	676	**(1)**	—	**(570)**	(270)	**633**	406
Reportable segment profit before income tax	**2,356**	4,076	**3,595**	4,224	**(293)**	(4,993)	**5,658**	3,307
Income tax expense / (recovery)	**1,056**	2,218	**135**	213	**(498)**	(1,502)	**693**	929
Net Income (loss)	**1,300**	1,858	**3,460**	4,011	**205**	(3,491)	**4,965**	2,378
Reportable segment assets[1]	**77,085**	85,734	**124,971**	89,980	**15,276**	15,131	**217,332**	190,845
Reportable segment liabilities[1]	**14,705**	21,712	**13,069**	14,139	**82,733**	61,260	**110,507**	97,111
Capital expenditures[1]	**(509)**	834	**1,002**	1,026	**—**	7	**494**	1,867

[1] Comparative figures as at June 30, 2015.

Information about reportable segments **Three months ended September 30**	Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Segment net sales	**31,592**	38,218	**40,889**	46,647	**—**	—	**72,481**	84,865
Inter-segment sales	**(5,786)**	(6,295)	**(29)**	(1,057)	**—**	—	**(5,815)**	(7,352)
External net sales	**25,806**	31,923	**40,860**	45,590	**—**	—	**66,666**	77,513
Depreciation and amortization includes loss on disposal of property, plant and equipment	**1,225**	1,310	**1,325**	1,351	**10**	9	**2,560**	2,670
Finance cost	**1,193**	1,055	**—**	14	**(523)**	(513)	**670**	556
Reportable segment profit before income tax	**1,744**	2,324	**2,521**	3,664	**(225)**	(811)	**4,040**	5,177
Income tax expense / (recovery)	**(558)**	758	**1,769**	622	**(286)**	(239)	**925**	1,141
Net Income (loss)	**2,302**	1,566	**752**	3,042	**61**	(572)	**3,115**	4,036
Reportable segment assets[1]	**79,189**	81,162	**123,159**	130,586	**18,439**	11,886	**220,787**	223,634
Reportable segment liabilities[1]	**16,597**	19,567	**14,162**	17,126	**81,128**	90,208	**111,887**	126,901
Capital expenditures[1]	**863**	1,496	**496**	517	**—**	5	**1,359**	2,018

[1] Comparative figures as at September 30, 2015.

Information about reportable segments Three months ended December 31	Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Segment net sales	**30,210**	33,226	**38,462**	46,955	**—**	—	**68,672**	80,181
Inter-segment sales	**(5,566)**	(6,032)	**(66)**	(573)	**—**	—	**(5,632)**	(6,605)
External net sales	**24,644**	27,194	**38,396**	46,382	**—**	—	**63,040**	73,576
Depreciation and amortization includes loss on disposal of property, plant and equipment	**1,304**	1,297	**1,351**	1,317	**10**	11	**2,665**	2,625
Finance cost	**1,194**	1,176	**(1)**	3	**(540)**	(355)	**653**	824
Reportable segment profit before income tax	**1,326**	1,748	**34**	3,034	**(367)**	413	**993**	5,195
Income tax expense / (recovery)	**227**	1,752	**(127)**	269	**(508)**	(514)	**(408)**	1,507
Net Income (loss)	**1,099**	(4)	**161**	2,765	**141**	927	**1,401**	3,688
Reportable segment assets[1]	**84,933**	78,444	**120,422**	127,003	**19,763**	12,292	**225,118**	217,739
Reportable segment liabilities[1]	**20,085**	19,592	**15,467**	14,643	**80,283**	83,970	**115,835**	118,205
Capital expenditures[1]	**1,230**	3,281	**595**	1,562	**27**	76	**1,852**	4,919

[1] Comparative figures as at December 31, 2015.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its 2017 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 (2016: $60 million). No amount was drawn against this facility at June 30, 2017.

For the six month period ended June 30, 2017, $1,333 of cash was provided by operations, (2016: $12,493), $3,380 (2016: $2,355) was used in investing activities and $4,331 (2016: $4,191) was used in financing activities. Cash and cash equivalents decreased by $6,365 from $27,971 to $21,606 adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

For the six months ended June 30, 2017, cash provided by operating activities decreased $11,160 compared to the same period in 2016. The decrease was due to lower net income of $3,250, lower non-cash expenses of $603 offset by higher cash used for working capital of $7,618.

Cash used for working capital for the six months ended June 30, 2017 increased to $10,741 (2016: $3,123) as a result of the following factors:

- Accounts receivable increased by $6,441, of which $6,975 related to trade receivables and was partly offset by $534 for income taxes receivable. Of the increase in trade receivables, $6,025 was attributable to Rubber Solutions and $1,184 to Engineered Products due to increased net sales;
- Inventory increased by $4,882; $2,202 of which was at Rubber Solutions due to rising raw material costs and a higher buildup of finished goods inventory due to planned maintenance in early July, and $2,680 of which was at Engineered Products to support higher demand in the defense business;
- Prepaid expenses increased by $942 for vendor deposits on long lead time materials in preparation for ramp up of filter productions in the defense business;
- Accounts payable increased by $1,771 principally due to higher raw material purchases and expenses and partly offset by the payment of the pension liability to an executive; and
- Other provisions decreased by $247 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, 2017, the following investments were made in the segment:

- Rubber Solutions invested $376 to improve the building and $1,291 in property, plant and equipment. Of this, $386 was invested in growth initiatives and the remaining spend was to replace existing property, plant and equipment; and
- Engineered Products invested $1,188 to purchase machinery and equipment to replace existing capital.

Financing activities

The Company's current credit facility is comprised of a $60,000 revolving facility, a term loan of $75,000 (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 term loan of approximately C$5,000 and an accordion feature of up to an additional $50,000 of availability, upon the satisfaction of customary conditions for such features. The maturity dates of the revolving credit facility and the US$ term loan are December 2020, while the maturity date of the C$ 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 $1,000 (2016: $1,002) were made pursuant to the term loans under the credit facility.

The Company paid dividends of $1,214 during the quarter (2016: $1,066).

Government assistance

During the second quarter of 2017, the Company recognized grants of $33 (2016: $17) to support certain initiatives which were offset against expenses; year-to-date $50 (2016: $34).

Scientific research and investment tax credits of $35 (2016: $29) were recognized in the quarter, research and development costs were reduced accordingly; year-to-date $99 (2016: $62).

Dividends

A quarterly dividend of $0.07 per share was declared on May 9, 2017 and paid on July 14, 2017. Total annual dividends declared during 2016 were $0.255 per common share.

Outstanding shares

As at August 8, 2017 the Company had 23,088,156 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 2017, the Company paid rent for the corporate office of $33 (2016: $35); year-to-date $78 (2016: $68).

During the second quarter of 2017, the Company paid fees for the use of a facility in South Carolina of approximately $5 (2016: $6); year-to-date $10 (2016: $11) to a company in which the Chairman is an officer.

In the second quarter of 2017, the Company paid rent of $293 (2016: $293); year-to-date $585 (2016: $585) to a company controlled by the former President of the automotive business. The monthly lease rate approximated fair market rental value.

In April 2014, the Company invested $550 in the form of a convertible promissory note in a company of which the former Deputy Chairman of the Company is the chairman. This note can be converted to an equity interest under the following conditions: (1) if the company has completed "qualified financing" raising $1 million in gross proceeds (excluding the Company's loan); (2) if no "qualified financing" takes place prior to the maturity date, the Company has the option to convert into common stock within 60 days prior to the maturity date of the note. In 2017, the Company agreed to amend the terms of the promissory and extend the maturity date to November 11, 2017, at which time the principal and accrued interest (at 15%) on the note will be due and payable unless the note is converted or the loan is prepaid at an earlier date.

During 2016, a full provision was recorded against the convertible promissory note and any accrued interest. No interest was recorded on the statement of income for 2016 and 2017.

During 2014, the Company provided share purchase loans of CAD $1,000 each to both the President and former Chief Financial Officer to purchase common shares of the Company. The share purchase loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or November 24, 2019. During 2016, the outstanding share purchase loan of $764 (CAD $1,000) was repaid in full by the former Chief Financial Officer. Also during 2016, the Company provided share purchase loans of CAD $250 each (in aggregate $372) to the new Chief Financial Officer and Senior Executive Vice President, Corporate. These loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or December 20, 2021. All share purchase loans bear interest at 1% annually with full recourse and interest is due and payable semi-annually. In total, 143,000 shares of the Company having a fair value of $1,444 were pledged as collateral on these three loans. At June 30, 2017, the promissory notes of $1,158 were included in other assets. During the quarter, interest of $7 (2016: $8) 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, 2016 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.

The Company has completed an assessment of the potential areas impacted by the adoption of IFRS 15, "Revenue from Contracts with Customers" on its consolidated financial statements. Under the proposed requirements, the customized nature of some of its products and contractual provisions in many of its customer contracts that provide it with an enforceable right to payment, may require it to recognize revenue prior to the product being shipped to the customer.

The Company is assessing pricing provisions contained in certain of its customer contracts. Pricing provisions contained in some customer contracts represent variable consideration which may provide the customer with a material right, potentially resulting in a different allocation of the transaction price than under current guidance.

In addition, the Company is evaluating how the new guidance may impact the accounting for customer tooling and pre-production costs. The impact this guidance will have on the financial statements continues to be evaluated

DISCLOSURE CONTROLS AND PROCEDURES

As of June 30, 2017, an evaluation was carried out under the supervision of and with the participation of the Company's management, including our CEO and CFO, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective as of June 30, 2017, the end of the period covered by management's discussion and analysis, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by officers within those entities.

The Company's CEO and its CFO are responsible for establishing and maintaining the Company's disclosure controls and procedures. The Disclosure Committee, composed of senior managers of the Company, assists the CEO and CFO in evaluating the information and appropriateness of material subject to public disclosure.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent 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, 2017, the Company had contracts to sell US $11,481 in 2017 for CAD $15,500. The fair value of these contracts, representing an unrealized gain of $3 is 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.

At December 31, 2016, the Company had contracts to sell US $8,937 in 2017 for CAD $12,000. The fair value of these contracts, representing an unrealized gain of $58 is 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 2017, the Company entered into an interest rate swap agreement for a notional amount of $33.5 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. This agreement was entered into as the previous interest rate swap entered into in 2014, for a notional amount of $22.5 million exchanging a floating rate of USD LIBOR for a fixed rate of 0.98%, expired on February 27, 2017.

During the second quarter of 2017, the interest expense of the swap agreements was $81 and $81 was paid; (2016: $31 and $32 was paid); year-to-date $92 and $92 was paid (2016: $63 and $65 was paid).

For the quarter ended June 30, 2017, the fair value of this agreement, representing a loss of $31, 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, 2016, the fair value of the previous swap agreement, representing a loss of $11, 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 speculation purposes.

OUTLOOK

Management is encouraged to see the positive trends that began in the first quarter of 2017 continuing in the second quarter.

At Rubber Solutions, the continued improvement in volume reflects our efforts to diversify our customer base and product offerings, supported by a strong development pipeline. These efforts will continue throughout 2017. In particular, our niche tolling is proceeding on plan and we expect to ramp up to commercial volumes in another niche tolling program in the second half of the year. Raw material price volatility in the first half of the year impacted pricing strategies, resulting in some pressure on gross profit at Rubber Solutions. In addition, customers in the OTR market have also become increasingly price sensitive as a result of the inflow of lower cost products in the re-tread market from offshore suppliers. This is expected to pressure our OTR pricing in the remainder of 2017. While the Company is taking steps to address these issues, and notwithstanding these challenges, management expects overall volume levels for the second half of the year to be similar to the first half. We will continue to aggressively pursue new customers and to invest in compound development and customer trials in order to acquire incremental volume, while implementing measures to protect gross profit margins.

Within Engineered Products, the automotive business continues to add bench strength in key areas and to invest in improved processes, while gaining traction in its efforts to pursue new multi-year programs to replace programs that have expired or are near the end of their platform life. However, as previously mentioned, efforts to pursue new programs are necessarily focused on platforms that start production in 2018/19 or later, and will likely not have a significant impact on near term results. We expect net sales in the automotive business for the second half of 2017 to be at similar levels to the first half of the year. In our defense business, we are pleased that the positive signs in the global defense market that had been accumulating for the past few months are starting to translate into firm orders in several product lines. The increase in net sales on a year-over-year basis in the first half of 2017 is encouraging, and the rate of inquiries and potential tendering activity remains steady. As is common in the space, the sales revenue that may result from such increased activity will not necessarily be realized in the short term.

We see positive indications for defense in the second half of 2017 and into the first quarter of 2018, including the recent receipt of our first firm order from a large foreign military for our new Low Burden Mask ("LBM") and the commencement order for production under a previously delayed filter contract.

The initial positive results from our internal investments seen in the first quarter have continued into the second quarter of 2017. Our strong financial position will allow us to continue the required investments to optimize the business and allow us to consider future acquisitions or other growth opportunities.

August 8, 2017

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, 2017**	December 31, 2016
ASSETS			
Current assets			
Cash and cash equivalents		**21,606**	27,971
Trade and other receivables, including derivatives	*4*	**49,847**	42,430
Prepaid expenses		**4,851**	3,902
Inventories	*5*	**37,262**	32,380
Current income taxes receivable	*12*	**124**	1,177
Total current assets		**113,690**	107,860
Non-current assets			
Property, plant and equipment		**60,555**	61,360
Intangible assets		**53,192**	54,333
Other assets	*6*	**1,605**	1,565
Total non-current assets		**115,352**	117,258
Total assets		**229,042**	225,118
LIABILITIES			
Current liabilities			
Loans and borrowings	*7*	**4,924**	4,009
Trade and other payables, including derivatives		**35,864**	32,699
Employee benefits	*14*	**—**	1,223
Provisions	*9*	**1,161**	26
Total current liabilities		**41,949**	37,957
Non-current liabilities			
Loans and borrowings	*7*	**66,527**	69,197
Employee benefits	*14*	**518**	507
Provisions	*9*	**675**	1,755
Deferred income tax liabilities	*12*	**6,349**	6,419
Total non-current liabilities		**74,069**	77,878
Total liabilities		**116,018**	115,835
EQUITY			
Share capital	*10*	**37,838**	37,826
Contributed surplus	*10*	**1,985**	1,899
Retained earnings		**73,201**	69,558
Total equity		**113,024**	109,283
Total liabilities and equity		**229,042**	225,118

The notes on pages 18 to 27 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** **2017**	2016	**Six month** **2017**	2016
Net Sales		**73,877**	67,455	**143,804**	137,922
Cost of sales		**(62,109)**	(54,382)	**(120,940)**	(111,685)
Gross profit		**11,768**	13,073	**22,864**	26,237
General and administrative expenses		**(5,319)**	(4,545)	**(10,259)**	(9,454)
Selling and marketing expenses		**(1,265)**	(1,476)	**(2,549)**	(2,914)
Research and development expenses	*13*	**(502)**	(788)	**(1,123)**	(1,398)
Other income		**17**	27	**105**	475
Operating Expenses		**(7,069)**	(6,782)	**(13,826)**	(13,291)
Results from operating activities		**4,699**	6,291	**9,038**	12,946
Finance costs	*7,14*	**(781)**	(633)	**(1,513)**	(1,507)
Profit before income tax		**3,918**	5,658	**7,525**	11,439
Income tax expense	*12*	**(738)**	(693)	**(1,469)**	(2,133)
Profit and total comprehensive income for the period		**3,180**	4,965	**6,056**	9,306
Earnings per share					
Basic	*11*	**0.14**	0.22	**0.26**	0.40
Diluted	*11*	**0.14**	0.21	**0.26**	0.39

The notes on pages 18 to 27 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, 2016	37,681	1,691	60,162	99,534
Profit and total comprehensive income for the period	—	—	9,306	9,306
Contributions by and distributions to owners				
Stock options expensed	—	206	—	206
Share options exercised	67	(200)	—	(133)
Share awards vested	78	—	—	78
Dividends to equity holders	—	—	(2,166)	(2,166)
Total contributions by and distributions to owners	145	6	(2,166)	(2,015)
Balance at June 30, 2016	37,826	1,697	67,302	106,825

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
Share 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

The notes on ***pages 18 to 27 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*	**2017**	2016
Cash flows from operating activities			
Profit for the six month period ended June 30		**6,056**	9,306
Adjustments for:			
Depreciation		**3,717**	3,400
Amortization of intangible assets		**1,671**	1,711
Finance costs	*7,14*	**1,513**	1,507
Unrealized foreign exchange gains		**(111)**	(47)
Share-based payment expense	*10*	**330**	459
SRED tax credits		**(99)**	(103)
Current income tax expense	*12*	**1,514**	2,284
Deferred income tax expense	*12*	**(45)**	(151)
Post-retirement benefits expense	*14*	**(5)**	(15)
Other		**(39)**	4
		14,502	18,355
Change in inventories		**(4,882)**	4,274
Change in trade and other receivables		**(6,441)**	(866)
Change in prepaid assets		**(942)**	193
Change in trade and other payables		**1,771**	(6,724)
Change in provisions		**(247)**	—
Net change in non-cash or working capital balances		**(10,741)**	(3,123)
Interest paid		**(1,532)**	(1,414)
Income tax paid		**(896)**	(1,325)
Net cash provided by operating activities		**1,333**	12,493
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**—**	64
Acquisition of property, plant and equipment		**(2,855)**	(3,170)
Acquisition of intangible assets		**(530)**	(21)
Repayment of share repurchase loans		**—**	764
Interest received on share purchase loan		**5**	8
Net cash used in investing activities		**(3,380)**	(2,355)
Cash flows from financing activities			
Repayment of borrowings		**(2,000)**	(1,993)
Tax paid on exercise of share options		**—**	(133)
Dividends paid	*10*	**(2,331)**	(2,065)
Net cash used in financing activities		**(4,331)**	(4,191)
Net decrease in cash and cash equivalents		**(6,378)**	5,947
Cash and cash equivalents at January 1		**27,971**	11,961
Effect of exchange rate fluctuations on cash held		**13**	(26)
Cash and cash equivalents at June 30		**21,606**	17,882

The notes on pages 18 to 27 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, 2017 and June 30, 2016
(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, 2017 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 2016 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 8, 2017.

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, 2016 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.

The Company has completed an assessment of the potential areas impacted by the adoption of IFRS 15, "Revenue from Contracts with Customers" on its consolidated financial statements. Under the proposed requirements, the customized nature of some of its products and contractual provisions in many of its customer contracts that provide it with an enforceable right to payment, may require it to recognize revenue prior to the product being shipped to the customer.

The Company is assessing pricing provisions contained in certain of its customer contracts. Pricing provisions contained in some customer contracts represent variable consideration which may provide the customer with a material right, potentially resulting in a different allocation of the transaction price than under current guidance.

In addition, the Company is evaluating how the new guidance may impact the accounting for customer tooling and pre-production costs. The impact this guidance will have on the financial statements continues to be evaluated.

NOTE 4 TRADE AND OTHER RECEIVABLES

In thousands of US dollars	**June 30, 2017**	December 31, 2016
Trade receivables	**49,101**	41,636
Less: allowance for doubtful accounts	**(179)**	(95)
	48,922	41,541
Other receivables	**925**	889
	49,847	42,430

Impairment losses

The aging of trade receivables at the reporting date was:

	June 30, 2017		December 31, 2016	
In thousands of US dollars	**Gross**	**Impairment**	Gross	Impairment
Within terms	**40,127**	**—**	31,597	—
Past due 0-30 days	**7,715**	**—**	8,761	—
Past due 31-120 days	**1,259**	**(179)**	1,278	(95)
	49,101	**(179)**	41,636	(95)

The continuity of the allowance for doubtful accounts was:

In thousands of US dollars	**June 30, 2017**	December 31, 2016
Balance at January 1	**(95)**	(734)
Impairment loss recognized	**—**	(115)
Collected	**3**	256
Revised estimate/write-off	**(87)**	498
Balance	**(179)**	(95)

NOTE 5 INVENTORIES

In thousands of US dollars	**June 30, 2017**	December 31, 2016
Raw materials and consumables	**25,802**	22,524
Work in progress	**3,259**	2,601
Finished goods	**8,069**	6,706
Inventory in transit	**1,900**	1,735
	39,030	33,566
Provisions	**(1,768)**	(1,186)
	37,262	32,380

An inventory charge of $582 (2016: $121) was included in cost of sales for the increase in provisions.

NOTE 6 OTHER ASSETS

In thousands of US dollars	Convertible promissory note	Share purchase loan	10% equity investment	Other	Total
Balance at January 1, 2016	275	1,447	313	130	2,165
Accrued interest	—	12	—	—	12
Interest paid	—	(12)	—	—	(12)
Repayment of loan	—	(763)	—	—	(763)
New loan issuances	—	372	—	—	372
Write-down to fair value of convertible promissory note	(275)	—	—	—	(275)
Effect of movements in exchange rates	—	63	—	3	66
Balance at December 31, 2016	—	1,119	313	133	1,565
Accrued interest	—	7	—	—	7
Interest paid	—	(7)	—	—	(7)
Effect of movements in exchange rates	—	39	—	1	40
Balance at June 30, 2017	—	1,158	313	134	1,605

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 2017, the Company accrued $666 and paid $977 interest expense on term loans under its syndicated credit facilities; year-to-date $1,294 and $1,532, respectively.

NOTE 8 DERIVATIVES NOT MEETING HEDGE ACCOUNTING CRITERIA

Foreign exchange hedge

At June 30, 2017, the Company had contracts to sell US $11,481 in 2017 for CAD $15,500. The fair value of these contracts, representing an unrealized gain of $3 is 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.

At December 31, 2016, the Company had contracts to sell US $8,937 in 2017 for CAD $12,000. The fair value of these contracts, representing an unrealized gain of $58 is 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 2017, the Company entered into an interest rate swap agreement for a notional amount of $33.5 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. This agreement was entered into as the previous interest rate swap entered into in 2014, for a notional amount of $22.5 million exchanging a floating rate of USD LIBOR for a fixed rate of 0.98%, expired on February 27, 2017.

During the second quarter of 2017, the interest expense of the swap agreements was $81 and $81 was paid; (2016: $31 and $32 was paid); year-to-date $92 and $92 was paid (2016: $63 and $65 was paid).

For the quarter ended June 30, 2017, the fair value of this agreement, representing a loss of $31, 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, 2016, the fair value of the previous swap agreement, representing a loss of $11, 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 speculation 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, 2016	72	1,011	—	278	1,361
Provisions accrued during the period	—	293	108	—	401
Amortization during the year	—	—	—	(13)	(13)
Foreign exchange	2	33	(3)	—	32
Balance at December 31, 2016	74	1,337	105	265	1,781
Provisions accrued during the period	—	401	152	(13)	540
Payments during the year	—	(538)	—	—	(538)
Foreign Exchange	1	43	9	—	53
Total	75	1,243	266	252	1,836
Less current portion due within one year	—	(1,138)	—	(23)	(1,161)
Non-current balance at June 30, 2017	75	105	266	229	675

No legal provisions are recognized at June 30, 2017 and December 31, 2016.

Restricted Stock Units

Pursuant to its 2015 Omnibus Incentive Plan (“Omnibus Plan”) approved by shareholders, the Company issued certain executives an aggregate of 238,500 restricted stock units in 2015 on the terms and conditions set out in the Omnibus Plan. 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, 2017**	December 31, 2016	June 30, 2016
January 1	**224,000**	238,500	238,500
Forfeitures	**—**	(14,500)	—
Exercised	**(58,000)**	—	—
Balance	**166,000**	224,000	238,500

During the second quarter of 2017 and year-to-date, 5,000 and 58,000 (2016: nil and nil) restricted stock units were vested and exercised for $45 and $538 in cash (2016: nil and nil). No new restricted stock units were issued and there were no forfeitures in the second quarter of 2017 and 2016. During the second quarter of 2017, the Company recognized as employee costs $234 (2016: $62) related to the plan; year-to-date $401 (2016: $160) related to the plan.

Performance Awards

The Company has issued certain executives 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, 2017**	December 31, 2016	June 30, 2016
January 1	**50,680**	—	—
New issuances	**49,002**	52,610	41,860
Forfeitures	**(3,911)**	(1,930)	—
Balance	**95,771**	50,680	41,860

During the second quarter of 2017, nil (2016: 10,000) performance awards were issued. During the second quarter of 2017, the Company recognized as employee costs $37 (2016: $15) related to the plan; year-to-date $59 (2016: $15) 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: one common share; a cash payment equal to the fair market value of a common share as of the redemption date; or 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, 2017**	December 31, 2016	June 30, 2016
January 1	**11,428**	—	—
New issuances	**8,539**	11,428	3,051
Balance	**19,967**	11,428	3,051

At June 30, 2017, independent directors were granted an aggregate of 19,967 DSUs with a fair value of $255. During the second quarter of 2016, no DSUs were issued. During the second quarter of 2017, the Company recognized as employee costs $51 (2016: $nil) related to DSUs issued under the Omnibus Plan; year-to-date $93 (2016: $nil) 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, 2017**	December 31, 2016	June 30, 2016
January 1	**23,074**	23,022	23,022
Exercise of share options	**14**	46	46
Share awards	**—**	6	6
Balance	**23,088**	23,074	23,074

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.

Share options outstanding as at June 30

	2017	2016
Share options granted and outstanding	**1,028,616**	1,006,400

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

111,400 options were granted in March 2016 and 109,596 options were granted in March 2017. There were no new options granted during the three months period ended June 30, 2017, and there were no other options granted in the year ended 2016.

In Canadian dollars	**March 21, 2017**	**March 30, 2016**
Fair value at grant date	$2.35	$3.60
Share price at grant date	11.08	15.25
Exercise price	12.26	16.69
Expected volatility (weighted average volatility)	34.2%	34.6%
Option life (expected weighted average life)	5 years	5 years
Expected dividends	2.53%	1.57%
Risk-free interest rate (based on government bonds)	1.18%	0.66%

Stock option expense

During the second quarter of 2017, the Company recognized as employee costs $69 (2016: $125) relating to option grants in general and administrative expenses of the statement of income; year-to-date $145 (2016: $206) 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 2017 and in 2016 as follows:

		2017		2016
Shareholder of record at:	**$CAD/share**	**Date Paid**	$CAD/share	Date Paid
June 30, 2016	**0.07**	**July 14, 2017**	0.065	July 14, 2016
March 31, 2016	**0.07**	**April 14, 2017**	0.06	April 14, 2016

The dividend payable at June 30, 2017 was $1,245 (June 30, 2016: $1,161).

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*	**2017**	2016	**2017**	2016
Numerator for basic and diluted earnings per share: Net income	**3,180**	4,965	**6,056**	9,306
Denominator for basic and diluted earnings per share:				
Basic weighted average number of shares outstanding	**23,078**	23,067	**23,076**	23,049
Dilution effect of stock options	**262**	369	**270**	399
Dilution of effect of restricted share units	**123**	126	**106**	126
Dilution of effect of deferred stock units	**10**	—	**9**	—
Diluted weighted average number of shares outstanding	**23,473**	23,562	**23,461**	23,574
Net income per share: Basic	**0.14**	0.22	**0.26**	0.40
Diluted	**0.14**	0.21	**0.26**	0.39

For the three and six month periods ended June 30, 2017, 170,200 options (2016: 126,400) 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*	**2017**	2016	**2017**	2016
Current tax expense:				
Current period	**965**	967	**1,541**	2,244
Adjustment for prior period	**(27)**	22	**(27)**	40
	938	989	**1,514**	2,284
Deferred tax expense:				
Origination and reversal of temporary differences	**(218)**	(33)	**(63)**	112
Adjustment for prior periods	**18**	(263)	**18**	(263)
	(200)	(296)	**(45)**	(151)
Total income tax expense	**738**	693	**1,469**	2,133

NOTE 13 GOVERNMENT ASSISTANCE

During the second quarter of 2017, the Company recognized grants of $33 (2016: $17) to support certain initiatives which were offset against expenses; year-to-date $50 (2016: $34).

Scientific research and investment tax credits of $35 (2016: $29) were recognized in the quarter, research and development costs were reduced accordingly; year-to-date $99 (2016: $62).

NOTE 14 POST RETIREMENT BENEFITS

	Executive Supplemental Plan		Other benefit plan	
June 30 *In thousands of US dollars*	**2017**	2016	**2017**	2016
The amounts recognized in the income statement are as follows:				
Post-retirement benefits recovery	**—**	—	**(15)**	(15)
Interest cost	**11**	22	**9**	9
Exchange differences	**13**	83	**17**	36
Expense	**24**	105	**11**	30

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 is included in finance costs and exchange differences in other income (expense) in the income statement.

Defined Contribution Plan

The AirBoss group of companies in the United States maintains a 401(k) defined contribution plan for their employees. Total estimated contribution to this plan for 2017 was $510. For the quarter ended June 30, 2017, the expense for this plan was $87; year-to-date $234.

The AirBoss group of companies in Canada maintains registered retirement savings plan defined contribution plans for their employees. Total estimated contribution and expense to these plans for 2017 was $105; year-to-date $215.

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 $69 (2016: $72); year-to-date $139 (2016: $141) to the multi-employer pension plan. The unfunded vested benefit ratio was 68.0% at December 31, 2016 (2015: 45.89%). The Steel Workers Pension Trust was in a net deficit at December 31, 2016 and AFP’s portion of the deficit was unknown. The collective bargaining agreements that require contributions to the multi-employer plan are set to expire December 31, 2017. The collective bargaining agreement requires that AFP contributes $0.40 for each hour worked by eligible employees during the preceding wage month. Total estimated contribution to this plan for the 2017 fiscal year is $296.

NOTE 15 SEGMENTED INFORMATION

IFRS 8, Operating Segments, requires operating segments to be determined based on internal reports that are regularly reviewed by the chief operating decision maker ("CODM") for the purpose of allocating resources to the segment and to assessing its performance. In the first quarter, 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 June 30, 2017, the Company's operating segments are organized into the following reportable segments:

- Rubber Solutions. Includes manufacturing and distribution of rubber compounds, semi-finished rubber related products, 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 the manufacture and distribution of anti-vibration and noise dampening parts.
- Corporate. Includes corporate activities and certain unallocated costs.

All prior 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. 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	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Segment net sales	**39,921**	31,676	**41,489**	41,684	**—**	—	**81,410**	73,360
Inter-segment sales	**(7,396)**	(5,759)	**(137)**	(146)	**—**	—	**(7,533)**	(5,905)
External net sales	**32,525**	25,917	**41,352**	41,538	**—**	—	**73,877**	67,455
Depreciation and amortization includes loss on disposal of property, plant and equipment	**1,340**	1,211	**1,368**	1,321	**10**	11	**2,718**	2,543
Finance cost	**1,179**	1,203	**—**	—	**(398)**	(570)	**781**	633
Reportable segment profit before income tax	**2,294**	2,355	**2,307**	3,595	**(683)**	(292)	**3,918**	5,658
Income tax expense / (recovery)	**744**	1,055	**623**	135	**(629)**	(497)	**738**	693
Net Income (loss)	**1,550**	1,300	**1,684**	3,460	**(54)**	205	**3,180**	4,965
Reportable segment assets[1]	**95,725**	84,933	**123,409**	120,422	**9,908**	19,763	**229,042**	225,118
Reportable segment liabilities[1]	**22,896**	20,085	**53,909**	15,467	**39,213**	80,283	**116,018**	115,835
Capital expenditures[2]	**885**	(508)	**800**	1,002	**158**	0	**1,843**	494

[1] Comparative figures as at December 31, 2016.
[2] Comparative figures as at June 30, 2016.

Information about reportable segments Six months ended June 30	Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Segment net sales	**77,761**	65,716	**80,558**	84,521	**—**	—	**158,319**	150,237
Inter-segment sales	**(14,377)**	(12,128)	**(138)**	(187)	**—**	—	**(14,515)**	(12,315)
External net sales	**63,384**	53,588	**80,420**	84,334	**—**	—	**143,804**	137,922
Depreciation and amortization includes loss on disposal of property, plant and equipment	**2,640**	2,474	**2,735**	2,621	**19**	23	**5,394**	5,118
Finance cost	**2,346**	2,356	**—**	—	**(833)**	(849)	**1,513**	1,507
Reportable segment profit before income tax	**4,896**	4,591	**3,664**	7,128	**(1,035)**	(280)	**7,525**	11,439
Income tax expense/(recovery)	**1,518**	2,219	**951**	796	**(1,000)**	(882)	**1,469**	2,133
Net income (loss)	**3,378**	2,372	**2,713**	6,332	**(35)**	602	**6,056**	9,306
Reportable segment assets[1]	**95,725**	84,933	**123,409**	120,422	**9,908**	19,763	**229,042**	225,118
Reportable segment liabilities[1]	**22,896**	20,085	**53,909**	15,467	**39,213**	80,283	**116,018**	115,835
Capital expenditures[2]	**1,682**	943	**1,510**	2,221	**193**	27	**3,385**	3,191

[1] Comparative figures as at December 31, 2016.
[2] Comparative figures as at June 30, 2016.

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		Net Sales		Non-current assets		Non-current assets
	Three months ended June 30		Six months ended June 30		June 30		December 31, 2016
In thousands of US dollars	**2017**	2016	**2017**	2016	**2017**	2016	
Canada	**13,140**	10,389	**24,017**	23,577	45,393	45,129	45,612
United States	**52,956**	48,842	**104,043**	98,104	69,959	73,852	71,646
Other countries	**7,781**	8,224	**15,744**	16,241	—	—	—
	73,877	67,455	**143,804**	**137,922**	115,352	118,981	117,258

Major customers

Net sales from one customer represent approximately 9% (2016: 10%) of the Group's total net sales. Five customers represented 30% (2016: 32%) of the Company's total net sales.

Major products

In thousands of US dollars	Three months ended June 30 2017	Three months ended June 30 2016	Six months ended June 30 2017	Six months ended June 30 2016
Rubber Solutions				
Tolling	**2,171**	955	**4,068**	2,957
Mixing	**21,390**	18,274	**43,058**	38,522
Industrial	**8,964**	6,688	**16,258**	12,110
	32,525	25,917	**63,384**	53,589
Engineered Products				
Defense	**7,760**	4,730	**12,675**	10,441
Automotive	**33,592**	36,808	**67,745**	73,892
	41,352	41,538	**80,420**	84,333
Total	**73,877**	67,455	**143,804**	137,922

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 2017, the Company paid rent for the corporate office of $33 (2016: $35); year-to-date $78 (2016: $68).

During the second quarter of 2017, the Company paid fees for the use of a facility in South Carolina of approximately $5 (2016: $6); year-to-date $10 (2016: $11) to a company in which the Chairman is an officer.

In the second quarter of 2017, the Company paid rent of $293 (2016: $293); year-to-date $585 (2016: $585) to a company controlled by the former President of the automotive business. The monthly lease rate approximated fair market rental value.

In April 2014, the Company invested $550 in the form of a convertible promissory note in a company of which the former Deputy Chairman of the Company is the chairman. This note can be converted to an equity interest under the following conditions: (1) if the company has completed "qualified financing" raising $1 million in gross proceeds (excluding the Company's loan); (2) if no "qualified financing" takes place prior to the maturity date, the Company has the option to convert into common stock within 60 days prior to the maturity date of the note. In 2017, the Company agreed to amend the terms of the promissory and extend the maturity date to November 11, 2017, at which time the principal and accrued interest (at 15%) on the note will be due and payable unless the note is converted or the loan is prepaid at an earlier date.

During 2016, a full provision was recorded against the convertible promissory note and any accrued interest. No interest was recorded on the statement of income for 2016 and 2017.

During 2014, the Company provided share purchase loans of CAD $1,000 each to both the President and former Chief Financial Officer to purchase common shares of the Company. The share purchase loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or November 24, 2019. During 2016, the outstanding share purchase loan of $764 (CAD $1,000) was repaid in full by the former Chief Financial Officer. Also during 2016, the Company provided share purchase loans of CAD $250 each (in aggregate $372) to the new Chief Financial Officer and Senior Executive Vice President, Corporate. These loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or December 20, 2021. All share purchase loans bear interest at 1% annually with full recourse and interest is due and payable semi-annually. In total, 143,000 shares of the Company having a fair value of $1,444 were pledged as collateral on these three loans. At June 30, 2017, the promissory notes of $1,158 were included in other assets. During the quarter, interest of $7 (2016: $8) 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.

Corporate Information

AirBoss of America Corp.
16441 Yonge Street
Newmarket, Ontario, Canada L3X 2G8
Telephone: 905-751-1188
Facsimile: 905-751-1101

Chairman and CEO:
P.G. (Gren) Schoch

President:
Lisa Swartzman

Chief Financial Officer:
Daniel Gagnon