AIRBOSS OF AMERICA CORP.
2021 FIRST QUARTER INTERIM REPORT

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

The following Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations of AirBoss of America Corp. ("AirBoss" or the "Company") has been prepared as of May 12, 2021 and should be read in conjunction with the Unaudited Interim Condensed Consolidated Financial Statements and Notes for the three-month period ended March 31, 2021 and the MD&A and Audited Consolidated Financial Statements and Notes for the year ended December 31, 2020. The Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The Audit Committee and Board of Directors have reviewed and approved the contents of this MD&A, the Financial Statements and the first quarter press release. All dollar amounts are shown in thousands of US dollars, except per share amounts, unless otherwise specified. Additional information regarding the Company, including its Annual Information Form, can be found on SEDAR at www.sedar.com and on the Company's website at www.airboss.com.

FORWARD-LOOKING INFORMATION

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

Statements containing forward-looking information are necessarily based upon a number of opinions, estimates and assumptions that, while considered reasonable by management at the time the statements are made, are inherently subject to significant business, economic and competitive risks, uncertainties and contingencies. AirBoss cautions that such forward-looking information involves known and unknown contingencies, uncertainties and other risks that may cause AirBoss' actual financial results, performance or achievements to be materially different from its estimated future results, performance or achievements expressed or implied by the forward-looking information. Numerous factors could cause actual results to differ materially from those in the forward-looking information, including without limitation: impact of general economic conditions, notably including its impact on demand for rubber solutions and products; dependence on key customers; global defense budgets, notably in the Company's target markets, and success of the Company in obtaining new or extended defense contracts; cyclical trends in the tire and automotive, construction, mining and retail industries; sufficient availability of raw materials at economical costs; weather conditions affecting raw materials, production and sales; AirBoss' ability to maintain existing customers or develop new customers in light of increased competition; AirBoss' ability to successfully integrate acquisitions of other businesses and/or companies or to realize on the anticipated benefits thereof; changes in accounting policies and methods, including uncertainties associated with critical accounting assumptions and estimates; changes in the value of the Canadian dollar relative to the US dollar; changes in tax laws and potential litigation; ability to obtain financing on acceptable terms; environmental damage and non-compliance with environmental laws and regulations; impact of global health situations; potential product liability and warranty claims and equipment malfunction. COVID-19 could also negatively impact the Company's operations and financial results in future periods. There is increased uncertainty associated with future operating assumptions and expectations as compared to prior periods. As such, it is not possible to estimate the impacts COVID-19 will have on the Company's financial position or results of operations in future periods. While the direct impacts of COVID-19 are not determinable at this time, the Company has a credit facility that can provide financing up to $150,000. This list is not exhaustive of the factors that may affect any of AirBoss' forward-looking information.

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

OVERALL PERFORMANCE

Recent Highlights

(in US dollars)

- Increased dividend 43% to $CAD 0.10 per share from $CAD 0.07 per share;
- Increased Adjusted EBITDA by 47.9% to $14.4 million for the three-month period ended March 31, 2021 ("Q1 2021") vs $9.7 million in the three month period ended March 31, 2020 ("Q1 2020"), with the increase driven primarily by a $7.3 million increase in gross profit, partially offset by a $4.0 million increase in corporate expenses related to the growth in the Company's share price;
- Increased diluted EPS and adjusted diluted EPS[2] by $0.24 and $0.14 to $0.22 and $0.22 respectively, versus Q1 2020;
- Announced that AirBoss Defense Group ("ADG") has agreed to acquire Blackbox Biometrics, developer of the Blast Gauge System of lightweight wearable blast overpressure sensors which have been outfitted on U.S. Special Forces, Army, and SWAT teams across the U.S.;
- Announced that ADG has been awarded a US$288 million contract by the U.S. Department for Health and Human Services ("HHS") – Office of the Assistant Secretary for Preparedness and Response ("ASPR") for the sale of nitrile patient examination gloves; and
- Announced that ADG was awarded a $23.0 million contract from U.S. Department of Defense to provide Extreme Cold Vapor Barrier Boots and Molded AirBoss Lightweight Overboots.

Selected Financial Information

In thousands of US dollars, except share data	Three-months ended March 31	
(unaudited)	**2021**	2020
Financial results:		
Net sales	**107,329**	94,197
Profit	**6,319**	787
Profit attributable to owners of the Company	**6,319**	(520)
Adjusted Profit attributable to owners of the Company[2]	**6,319**	1,773
Earnings per share (US$)		
– Basic	**0.23**	(0.02)
– Diluted	**0.22**	(0.02)
Adjusted Earnings per share[2] (US$)		
– Basic	**0.23**	0.08
– Diluted	**0.22**	0.08
EBITDA[2]	**14,390**	7,435
Adjusted EBITDA[2]	**14,390**	9,728
Net cash provided by operating activities	**(3,976)**	12,409
Free cash flow[2]	**(9,222)**	10,567
Dividends declared per share (CAD$)	**0.07**	0.07
Capital additions	**9,781**	2,641
Financial position:	**March 31, 2021**	December 31, 2020
Total assets	**377,164**	367,369
Term loan and other debt[1]	**88,944**	90,734
Net Debt[2]	**741**	(9,718)
Shareholders' equity	**200,251**	194,588
Outstanding shares*	**26,984,987**	26,908,802
**26,984,987 at May 12, 2021*		

[1]Term loan and other debt as at March 31, 2021 and December 31, 2020 include lease liabilities of $17,561 and $13,482, respectively.

[2]Non-IFRS Financial Measures

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

EBITDA (Earnings before interest income, interest expense, income taxes, depreciation, amortization and impairment)
Adjusted EBITDA
Adjusted profit attributable to owners of the Company
Adjusted earnings per share
Free cash flow
Net Debt

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

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

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

	Three-months ended March 31 (unaudited)	
In thousands of US dollars	**2021**	2020
EBITDA:		
Profit	**6,319**	787
Finance costs	**547**	1,169
Depreciation, amortization and impairment	**4,663**	4,235
Income tax expense	**2,861**	1,244
EBITDA	**14,390**	7,435
ADG transaction fees	**—**	2,293
Adjusted EBITDA	**14,390**	9,728

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

	Three-months ended March 31 (unaudited)	
In thousands of US dollars	**2021**	2020
Adjusted profit attributable to owners of the Company:		
Profit attributable to owners of the Company	**6,319**	(520)
ADG transaction fees	**—**	2,293
Adjusted profit attributable to owners of the Company	**6,319**	1,773
Basic weighted average number of shares outstanding	**26,921**	23,392
Diluted weighted average number of shares outstanding	**28,127**	23.479
Adjusted net income per share (in US dollars):		
Basic	**0.23**	0.08
Diluted	**0.22**	0.08

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

In thousands of US dollars	**March 31, 2021** (unaudited)	December 31, 2020
Net debt:		
Loans and borrowings - current	**22,482**	27,083
Loans and borrowings - non-current	**66,462**	63,651
Leases included in loans and borrowings	**(17,561)**	(13,482)
Cash and cash equivalents	**(70,642)**	(86,970)
Net debt	**741**	(9,718)

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

	Three-months ended March 31 (unaudited)	
In thousands of US dollars	**2021**	2020
Free cash flow:		
Net cash provided by (used in) operating activities	**(3,976)**	12,409
Acquisition of property, plant and equipment	**(4,873)**	(2,004)
Acquisition of intangible assets	**(373)**	(338)
Proceeds from government grant	**—**	500
Free cash flow	**(9,222)**	10,567
Basic weighted average number of shares outstanding	**26,921**	23,392
Diluted weighted average number of shares outstanding	**26,921**	23,479
Free cash flow per share (in US dollars):		
Basic	**(0.34)**	0.45
Diluted	**(0.34)**	0.45

OVERVIEW

The first quarter has continued to advance the Company's financial position despite the continued impact of the COVID-19 pandemic, now in its third wave. The third wave has created challenges globally, despite the staggered roll out of vaccines slowly allowing for a measured reopening of businesses and economies. Despite the global challenges continuing to evolve at a rapid rate, AirBoss has continued to build on its record year of transformation, galvanizing its position in the PPE, health care and survivability sectors. Despite the extensive challenges associated with COVID-19, the Company has remained focused on supporting its customers, employees and stakeholders during the pandemic, ensuring the highest standards for safety at all of its locations.

This was a strong quarter for AirBoss compared to the same period in 2020, and the Company is poised for continued success during the remainder of 2021. The continued recovery in volumes will be subject, at least in part, to the continued management of stable and sustained operations of businesses globally, which could be difficult to predict, especially in light of the current COVID-19 impacts globally and across North America, which remains a key market for the Company. Supply issues continue to present challenges due to global freight constraints, material availability issues and increasing demand outpacing traditional supply models. Thus far, a combination of domestic sourcing, advanced buying tactics and the development of alternative sources have resulted in the mitigation of the most significant risks associated with these challenges, however we fully expect and have anticipated further constraints on our supply chain throughout 2021.

AirBoss has been able to take advantage of opportunities supporting continued demand for PPE which provided a strong financial backdrop to offset the COVID-19 related impact on the Rubber Solutions and Engineered Products segments. In addition to the US$121 million order for PAPRs from HHS, awarded in the second quarter of 2020, which was substantially completed in the quarter, ADG has continued to build momentum as it was awarded a contract for an initial order worth up to US$288 million by HHS – ASPR for the sale of nitrile patient examination gloves. HHS has provided ADG authorization to proceed immediately on this initial order.

AirBoss Defense Group also announced that it has agreed to acquire Blackbox Biometrics, developer of the Blast Gauge System of lightweight wearable blast overpressure sensors which have been outfitted on U.S. Special Forces, Army, and SWAT teams across the U.S.. In addition, ADG was awarded a $23.0 million contract from the U.S. Department of Defense to provide Extreme Cold Vapor Barrier Boots and Molded AirBoss Lightweight Overboots. These further awards are expected to help augment ADG's traction and momentum and are expected to help offset possible further COVID-19 related weakness which may still impact the Rubber Solutions and Engineered Products businesses during the first part of 2021.

AirBoss saw continued progress in its operations that carried through the quarter, despite, many customers, including automakers, tire makers and related suppliers, struggling with supply chain issues including freight delays out of Asia driven by the lack of available containers, increased demands on raw materials as global economies recover, unprecedented increases on raw material pricing driven by supply constraints/availability and electronic chip shortages. Both the Rubber Solutions and Engineered Products segments saw sustained demand that exceeded volumes for the same quarter in the prior year. As stated previously, timing for a sustained and full recovery in volumes will be subject, at least in part, to the continued evolution of COVID-19 across North America, specifically in the U.S. which seems to be progressing well on vaccination deployment.

In the case of the Engineered Products segment, the Company continued to focus on supporting the volume increase realized in the automotive sector and specifically on AirBoss' platforms of SUV, light truck and mini-van platforms while managing variable costs, focused on sustaining a stable hourly workforce. The Company's commitment to driving efficiencies and best in class automation was further evidenced as Engineered Products commenced installation of new injection presses to support its long term transformation through automation and continuous improvements as well as the diversification of its product lines into sectors adjacent to the automotive space. Management has also continued to sustain the production of certain molded defense products at the Auburn Hills, MI facility.

For the Rubber Solutions segment, areas of investment continued to progress with the successful implementation of the automated small ingredient weighment system which is running at steady capacity. While this segment saw progressive traction this quarter, raw material price increases coupled with international freight constraints proved challenging on the supply chain. The Company development and sales in colored rubber continued to grow in line with the margin expansion strategy with new customers while continuing to develop new compounds, proprietary compounds, and continuous improvement on existing compounds. The continued focus on operational excellence supported production of a broader array of compounded products (white and color), as well as provided enhanced flexibility in attracting and fulfilling new business. The Company has also made further inroads in utilization of the tilt mixer, which should support the production of increasingly specialized, higher margin compounds, further diversifying AirBoss' offering and enhancing penetration with both existing and new customers. In Kitchener, AirBoss continued to invest in its R&D expertise and lab capital to support enhanced collaboration with customers and better reflect the Company's focus on innovative R&D and proprietary technical solutions.

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

The Company remains in a sound financial position. The strong performance of ADG with continued support from Rubber Solutions has continued to support increased balance sheet strength and will provide management enhanced flexibility to execute opportunistically on both organic and inorganic growth initiatives, particularly as potential acquisition targets may lack the balance sheet strength to weather a prolonged downturn. AirBoss believes it is well positioned to further leverage its significant recent investments in innovation, capacity expansion, and innovative solutions as industry conditions improve.

Despite the continued headwinds associated with COVID-19, the Company's longer-term priorities remain intact and include:

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

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

RESULTS OF OPERATIONS - For the period ended March 31, 2021 compared to 2020

NET SALES

Consolidated net sales for Q1 2021 increased by 13.9% to $107,329 compared with Q1 2020 due largely to the substantial completion of the HHS contract, supported by the continued integration of CSI into the AirBoss Defense Group segment. This increase was further supported by stronger demand in the Rubber Solutions segment, and higher volumes in Engineered Products despite ongoing challenges due to the impact of the COVID-19 pandemic.

Three-months ended March 31 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Inter-segment net sales	Total
Net Sales	**2021**	**45,062**	**37,216**	**32,357**	**(7,306)**	**107,329**
	2020	35,059	34,254	30,062	(5,178)	94,197
Increase (decrease) $		10,003	2,962	2,295	(2,128)	13,132
Increase (decrease) %		28.5	8.6	7.6	41.1	13.9

AirBoss Defense Group

Net sales in the AirBoss Defense Group segment for Q1 2021 increased by 28.5% to $45,062, from $35,059 in Q1 2020. The increase was primarily the result of the large contract from HHS, which was substantially completed in the quarter as part of the U.S. government's response to the COVID-19 pandemic. In addition, there were higher sales related of masks and boots related to other defense customers.

Rubber Solutions

Net sales in the Rubber Solutions segment for Q1 2021 increased by 8.6% to $37,216, from $34,254 in Q1 2020. Volume was up 5.8% with increases across the majority of sectors and continued ramp up of most customer’s operations despite residual softness due to the COVID-19 pandemic. Tolling volume was down 4.1% while non-tolling was up 9.2%. In tolling applications, the Company only realizes net sales on the provision of compounding services for customer-supplied material, versus non-tolling where AirBoss also supplies the raw material inputs that are reflected in net sales. Volumes and sales improved progressively month over month during the quarter.

Engineered Products

Net sales in the Engineered Products segment for Q1 2021 increased by 7.6% to $32,357, from $30,062 in Q1 2020. The increase was due to stronger volumes in the SUV, light truck and mini-van platforms in addition to continued production of certain molded defense products. Compared to the first quarter of 2020, volume and sales improved progressively month-over-month as the automotive sector continued to perform strongly despite some challenges with global electronic chip shortages combined with raw material shortages in addition to freight and logistics bottlenecks.

GROSS PROFIT

Consolidated gross profit for Q1 2021 increased by $7,294 to $25,775, compared with Q1 2020, driven by higher volume from ADG partially offset by lower margins in the Rubber Solutions and Engineered Products segments. Gross profit as a percentage of net sales increased to 24.0% compared with 19.6% for Q1 2020. These increases were primarily as a result of the large ADG contract award from HHS, supported by continued management of overhead costs in both the Rubber Solutions and Engineered Products segments and government-directed wage subsidies to support businesses impacted by COVID-19.

Three-months ended March 31 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Total
Gross Profit	**2021**	**20,846**	**5,209**	**(280)**	**25,775**
	2020	10,657	5,903	1,921	18,481
Increase (decrease) $		10,189	(694)	(2,201)	7,294
% of net sales	**2021**	**46.3**	**14.0**	**(0.9)**	**24.0**
	2020	30.4	17.2	6.4	19.6

AirBoss Defense Group

Gross profit at AirBoss Defense Group for Q1 2021 increased by 95.6% to $20,846 (46.3% of net sales), up from $10,657 (30.4% of net sales) in Q1 2020. The increase was primarily due to higher volume associated with new business awards, while the Canadian operations were supported by government-directed wage subsidies.

Rubber Solutions

Gross profit at Rubber Solutions for Q1 2021 decreased by 11.8% to $5,209 (14.0% of net sales) from $5,903 (17.2% of net sales) in Q1 2020. This was primarily a result of increased raw material and logistics costs despite higher non-tolling volumes as noted above, partially offset by managing overhead costs and supported by government-directed wage subsidies.

Engineered Products

Gross profit at the Engineered Products segment for Q1 2021 was $(280), down from $1,921 in Q1 2020. This was primarily a result of higher labor, material and logistics costs despite higher volumes, partially offset by continued focus on operational cost containment and managing overhead costs.

OPERATING EXPENSES

Consolidated operating expenses for Q1 2021 increased by $767. The increase was primarily due to stock based compensation expenses and higher administrative costs partially offset by a foreign exchange gain (compared to a loss in the comparable period), government-directed wage subsidies to support businesses impacted by COVID-19 and transaction costs of $2,293 in the comparable period related to the ADG transaction. As a percentage of net sales, operating expenses for Q1 2021 were lower than Q1 2020.

Three-months ended March 31 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	**2021**	**5,918**	**2,232**	**2,685**	**5,213**	**16,048**
	2020	5,576	2,129	2,962	4,614	15,281
Increase (decrease) $		342	103	(277)	599	767
% of net sales	**2021**	**13.1**	**6.0**	**8.3**	**N/A**	**15.0**
	2020	15.9	6.2	9.9	N/A	16.2

AirBoss Defense Group

AirBoss Defense Group's operating expenses for Q1 2021 increased by $342 to $5,918 due to higher administration costs partially offset by government-directed wage subsidies and a foreign exchange gain (compared to a loss in the comparable period).

Rubber Solutions

Rubber Solutions' operating expenses for Q1 2021 increased by $103 to $2,232. The change was primarily due to higher administration costs offset by government-directed wage subsidies and a foreign exchange gain (compared to a loss in the comparable period).

Engineered Products

Engineered Products' operating expenses for Q1 2021 decreased by $277 to $2,685 due to lower administration costs and increased R&D subsidies.

Unallocated Corporate Costs

Unallocated corporate costs for Q1 2021 increased by $599 to $5,213. The increase was principally due to stock based compensation expenses partially offset by a foreign exchange gain (compared to a loss in the comparable period), government-directed wage subsidies to support businesses impacted by COVID-19 and transaction costs of $2,293 in the comparable period related to the ADG transaction.

FINANCE COSTS

Finance costs for Q1 2021 were $547 (Q1 2020: $1,169). The decrease was primarily due to lower interest expense on the term debt and a decrease in unrealized mark-to-market losses compared to the comparable period.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $2,861 in Q1 2021 (Q1 2020: $1,244) for an effective income tax rate of 31.2% (61.3% in Q1 2020). The effective tax rate was lower in the current quarter primarily due to the non-deductibility of ADG transaction costs in the comparable period.

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.

PROFIT AND EARNINGS PER SHARE

Profit totaled $6,319 for Q1 2021, compared with $787 for Q1 2020. The increase was primarily attributable to increased profitability from ADG.

Profit attributable to shareholders of the Company for Q1 2021 was $6,319 (Q1 2020: loss of $520). Basic and fully diluted net earnings per share in Q1 2021 were $0.23 and $0.22, respectively compared with $(0.02) and $(0.02), respectively, for Q1 2020. The increase in profitability is for the reasons noted above and owning 100% of ADG, compared to owning 55% in Q1 2020.

QUARTERLY INFORMATION

In thousands of US dollars			Earnings per share	
Quarter Ended	Net Sales	Profit	Basic	Diluted
2021				
March 31, 2021	**107,329**	**6,319**	**0.23**	**0.22**
2020				
December 31, 2020	132,180	15,902	0.61	0.59
September 30, 2020	162,745	11,646	0.50	0.47
June 30, 2020	112,450	6,675	0.29	0.27
March 31, 2020	94,197	(520)	(0.02)	(0.02)
2019				
December 31, 2019	85,762	2,457	0.11	0.11
September 30, 2019	77,173	1,525	0.07	0.07
June 30, 2019	82,616	3,311	0.14	0.14

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its remaining 2021 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 (2020: $60 million). No amount was drawn against this facility at March 31, 2021.

For Q1 2021, cash of $3,976 was used by operations, (Q1 2020: $12,409 provided), $5,240 was used by investing activities (Q1 2020: $2,656 provided), and $7,140 was used by financing activities (Q1 2020: $3,295). Cash and cash equivalents decreased by $16,328 from $86,970 to $70,642, adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

For Q1 2021, cash provided by operating activities decreased by $16,385 compared with Q1 2020. The decrease was due to $27,551 more cash used for working capital needs, partially offset by higher net income of $5,532, higher non-cash expenses of $4,254, lower interest payments of $340 and lower tax payments of $1,040.

Cash used for working capital for Q1 2021 increased to $20,876 (Q1 2020: $6,675 provided) as a result of the following factors:

- Cash used for accounts receivable was $15,480, primarily related to AirBoss Defense Group's delivery of FlexAir™ PAPR systems to HHS and increased sales at the Rubber Solutions Segment.
- Cash used for inventory was $6,375, primarily for material at the Rubber Solutions Segment in relation to higher volume and at the Engineered Products segment for safety stock due to anticipated shipping delays.
- Cash from prepaid expenses was $498, primarily from amortizing prepaid insurance premiums.
- Cash from accounts payable was $1,550 due to increased inventory and extending payment terms with suppliers.
- Cash used for provisions of $1,069 related to the payout preferred share units.

Investing Activities

Property, Plant and Equipment

During Q1 2021, the following investments were made:

- Rubber Solutions invested $917 in property plant and equipment primarily related to growth initiatives;
- Engineered Products invested $3,609. Of this, $3,020 was invested in cost savings initiatives, $407 in growth initiatives and the balance to replace or upgrade existing property, plant and equipment; and
- ADG invested $347 in property plant and equipment primarily to replace or upgrade existing property, plant and equipment.

Intangible Assets

During Q1 2021, the Company invested $373 in intangible assets for financial reporting and productivity software.

Financing activities

The Company’s current credit facility is comprised of a $60 million revolving facility, a term loan of $75 million and an accordion feature of up to an additional $50 million of availability, upon the satisfaction of customary conditions for such features. The revolving credit facility and term loan mature in January 2023.

In April 2021 the Company's credit facility was amended to increase the revolving facility from $60,000 to $150,000. The Company will use the additional credit to fund upfront costs under the contract to provide nitrile patient examination gloves to HHS. Since March 31, 2021, the Company has issued letters of credit totaling $55,000 under the increased credit facility in connection with this contract.

During Q1 2021, the Company made debt payments of $5,938 made up of $938 (Q1 2020: $938) for principal repayments related to the term loan under the credit facility and $5,000 under the purchase agreement to acquire the non-controlling interest in ADG. In addition, the Company paid $470 (Q1 2020: $450) of principal payments for its lease obligations.

The Company paid dividends of $1,479 during the Q1 2021 (Q1 2020: $1,261).

Government assistance

On May 1, 2020, the Company received a $6,422 loan pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, to fund certain payroll and business expenses of the Company's Michigan and North Carolina operations. This loan bears interest at 1.0% and matures on May 1, 2022 and may be prepaid at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, group health care benefits, rent, and utilities. The Company used the entire loan amount for qualifying expenses. The loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

The Government of Canada provide the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") to support businesses affected by COVID-19 based on certain criteria, including demonstration of revenue declines as result of COVID-19.

During the first quarter of 2020, the Company recognized a grant of $500 that was offset against the cost of plant and equipment.

Scientific research and investment tax credits of $295 (2020: $133) were recognized in the quarter and research and development costs were reduced accordingly.

Dividends

A quarterly dividend of CAD $0.07 per share was declared on March 9, 2021 and paid on April 15, 2021. Total annual dividends declared during 2020 were CAD $0.28 per common share.

Outstanding shares

As at May 12, 2021, the Company had 26,984,987 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

During the quarter, the Company paid rent for the corporate office of CAD $45 (2020: CAD $45) to a company controlled by the Chairman of the Company.

During the quarter, the Company paid fees for the use of a facility in South Carolina of approximately $8 (2020: $9) to a company in which the Chairman is an officer.

In December 2016, the Company provided a share purchase loan of CAD $250 to the former Chief Financial Officer that was repaid in June 2020. In March 2018, the Company provided a share purchase loan of CAD $500 to the President and Chief Operating Officer. On June 28, 2019, the Company provided share purchase loans of CAD $300 to the Executive Vice President, General Counsel; and CAD $92 to the President and Chief Operating Officer. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities, or the fifth anniversary of the issuance date. All share purchase loans issued prior to 2019 bear interest at 1% annually and all subsequent loans share purchase loans bear interest at 2% annually. In all cases, loans are full recourse and interest is due and payable semi-annually. In total, 86,807 shares of the Company having a fair value of $2,779 were pledged as collateral on these loans. At March 31, 2021, the loan receivables of $712, including accrued interest, were included in Other Assets on the statement of financial position. During the quarter, interest revenue of $3 (2020: $4) was received.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies in Note 3 to the annual consolidated financial statements for the year ended December 31, 2020, have been applied consistently to all periods presented in these interim condensed consolidated financial statements for the period ended March 31, 2021.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent quarter, there have been no changes in the Company's policies and procedures and other processes that comprise its internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

FINANCIAL INSTRUMENTS

Foreign exchange hedge

At March 31, 2021, the Company had contracts to sell USD $15,859 from April 2021 to September 2021 for Canadian dollars ("CAD") $20,300. The fair value of these contracts, representing an unrealized gain of $284, are included in trade and other receivables, including derivatives on the statement of financial position. For the quarter ended March 31, 2021, the unrealized changes in fair value, representing a loss of $336 (2020: loss of $1,511), are recorded on the statement of profit as other income (expense).

At December 31, 2020, the Company had contracts to sell US $16,031 from January 2021 to July 2021 for CAD $21,200. The fair value of those contracts, representing an unrealized gain of $620 are included in trade and other receivables, including derivatives on the statement of financial position.

Interest rate swap

In December 2020, the Company entered into an interest rate swap agreement for a notional amount of $28,125 ($27,656 as at March 31, 2021) amortizing down to $24,375 at maturity in January 2023. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 0.265%. This swap agreement replaces an old swap agreement that matured in December 2020 that calculated interest based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%.

For the quarter ended March 31, 2021, interest expense on the swap agreement was $9 (2020: nil).

At March 31, 2021, the fair value of this agreement, representing a loss of $36, is included in loans and borrowings on the statement of financial position. For the quarter ended March 31, 2021, the change in the fair value, representing a gain of $21 (2020: loss of $233) is recorded on the statement of profit as finance costs.

At December 31, 2020, the fair value of this agreement, representing a loss of $57, was included in loans and borrowings on the statement of financial position.

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

May 12, 2021

Gren Schoch
Chairman and Chief Executive Officer

Frank Ientile
Chief Financial Officer

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

For the three-month periods ended March 31, 2021 and March 31, 2020.

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

The accompanying unaudited interim condensed consolidated financial statements of the Company for the interim periods ended March 31, 2021 and March 31, 2020 have been prepared in accordance with IAS 34 Interim Financial reporting and are the responsibility of the Company's management.

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

Dated this May 12, 2021

Interim Condensed Consolidated Statement of Financial Position
Unaudited

In thousands of US dollars	*Note*	**March 31, 2021**	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		**70,642**	86,970
Trade and other receivables, including derivatives	*4, 8*	**83,593**	68,602
Prepaid expenses		**5,678**	6,176
Inventories	*5*	**51,900**	45,525
Current income taxes receivable	*12*	**1,367**	1,452
Assets available for sale		**—**	—
Total current assets		**213,180**	208,725
Non-current assets			
Property, plant and equipment		**87,574**	81,254
Intangible assets	*3*	**70,567**	71,774
Deferred income tax assets	*12*	**4,192**	3,973
Other assets	*6*	**1,651**	1,643
Total non-current assets		**163,984**	158,644
Total assets		**377,164**	367,369
LIABILITIES			
Current liabilities			
Loans and borrowings	*7, 13*	**22,482**	27,083
Trade and other payables		**75,904**	74,295
Provisions	*9*	**391**	573
Current income taxes payable	*12*	**3,119**	747
Total current liabilities		**101,896**	102,698
Non-current liabilities			
Loans and borrowings	*7*	**66,462**	63,651
Employee benefits	*14*	**667**	664
Provisions	*9*	**5,227**	2,058
Deferred income tax liabilities	*12*	**2,661**	3,710
Total non-current liabilities		**75,017**	70,083
Total liabilities		**176,913**	172,781
EQUITY			
Share capital	*10*	**88,013**	87,060
Contributed surplus	*10*	**1,457**	1,578
Retained earnings		**110,781**	105,950
Total equity		**200,251**	194,588
Total liabilities and equity		**377,164**	367,369

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

On behalf of the Board

P.G. Schoch
Director

Robert L. McLeish
Director

Interim Condensed Consolidated Statement of Profit and Comprehensive Income
Unaudited

For the three-month period ended March 31 *In thousands of US dollars*	*Note*	**2021**	2020
Net Sales		**107,329**	94,197
Cost of sales		**(81,554)**	(75,716)
Gross profit		**25,775**	18,481
General and administrative expenses		**(13,208)**	(11,742)
Selling and marketing expenses		**(2,116)**	(1,449)
Research and development expenses		**(807)**	(418)
Other income (expenses)		**83**	(1,672)
		(16,048)	(15,281)
Results from operating activities		**9,727**	3,200
Finance costs	*7, 8*	**(547)**	(1,169)
Profit before income tax		**9,180**	2,031
Income tax expense	*12*	**(2,861)**	(1,244)
Profit and total comprehensive income for the period		**6,319**	787
Profit attributable to:			
Owners of the Company		**6,319**	(520)
Non-controlling interest		**—**	1,307
		6,319	787
Earnings per share:			
Basic	*11*	**0.23**	(0.02)
Diluted	*11*	**0.22**	(0.02)

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

Interim Condensed Consolidated Statement of Changes in Equity

Unaudited

		Attributable to equity holders of the Company					
In thousands of US dollars	*Note*	Share Capital	Contributed Surplus	Retained Earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2020		39,579	1,262	85,138	125,979	—	125,979
Total comprehensive income for the period		—	—	(520)	(520)	1,307	787
Contributions by and distributions							
Stock options expensed		—	24	—	24	—	24
Acquisition and partial sale of subsidiaries	*3*	—	13,673	—	13,673	23,520	37,193
Dividends to equity holders		—	—	(1,219)	(1,219)	—	(1,219)
Total contributions by and distributions		—	13,697	(1,219)	12,478	23,520	35,998
Balance at March 31, 2020		39,579	14,959	83,399	137,937	24,827	162,764
Balance at January 1, 2021		87,060	1,578	105,950	194,588	—	194,588
Total comprehensive income for the period		—	—	6,319	6,319	—	6,319
Contributions by and distributions							
Stock options expensed		—	88	—	88	—	88
Stock options exercised		953	(209)	—	744	—	744
Dividends to equity holders		—	—	(1,488)	(1,488)	—	(1,488)
Total contributions by and distributions		953	(121)	(1,488)	(656)	—	(656)
Balance at March 31, 2021		88,013	1,457	110,781	200,251	—	200,251

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

Interim Condensed Consolidated Statement of Cash Flows

Unaudited

For the three-month period ended March 31 In thousands of US dollars	*Note*	**2021**	2020
Cash flows from operating activities			
Profit for the three-month period ended March 31		**6,319**	787
Adjustments for:			
Depreciation		**3,083**	2,815
Amortization of intangible assets		**1,580**	1,420
Finance costs	*7,8*	**547**	1,169
Unrealized foreign exchange losses (gains)		**572**	1,635
Share-based payment expense	*9,10*	**4,076**	19
SRED tax credits		**(295)**	(133)
Income tax expense	*12*	**2,861**	1,244
Other		**(9)**	(8)
		18,734	8,948
Change in inventories		**(6,375)**	(2,789)
Change in trade and other receivables		**(15,480)**	4,954
Change in prepaid expenses		**498**	(460)
Change in trade and other payables		**1,550**	5,020
Change in provisions	*9*	**(1,069)**	(50)
Net change in non-cash working capital balances		**(20,876)**	6,675
Interest paid		**(474)**	(814)
Income tax paid		**(1,360)**	(2,400)
Net cash provided by operating activities		**(3,976)**	12,409
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(4,873)**	(2,004)
Acquisition of intangible assets		**(373)**	(338)
Proceeds from government grant		**—**	500
Proceeds from asset disposals		**6**	—
Cash acquired on acquisition of subsidiary	*3*	**—**	4,498
Net cash used in investing activities		**(5,240)**	2,656
Cash flows from financing activities			
Repayment of borrowings		**(5,938)**	(938)
Principal payments for lease liabilities		**(470)**	(450)
Payment of debt refinancing fees		**—**	(650)
Exercise of options (net of withholding taxes)		**744**	—
Interest received on share purchase loans	*6, 16*	**3**	4
Dividends paid	*10*	**(1,479)**	(1,261)
Net cash used in financing activities		**(7,140)**	(3,295)
Net change in cash and cash equivalents		**(16,356)**	11,770
Cash and cash equivalents at January 1		**86,970**	121
Effect of exchange rate fluctuations on cash held		**28**	(109)
Cash and cash equivalents at January 31		**70,642**	11,782

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

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

For the three-month periods ended March 31, 2021 and March 31, 2020
(Amounts in thousands of US dollars ("USD"), except per share amounts, unless otherwise specified)

NOTE 1 REPORTING ENTITY

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

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

List of Subsidiaries

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

Operating Subsidiaries	Jurisdiction	Ownership % 2021 (2020)
AirBoss Rubber Compounding (NC), LLC ("ANC") (formerly AirBoss Rubber Compounding (NC) Inc.)	North Carolina	100% (100%)
SunBoss Chemicals Corp.	Ontario	100% (100%)
AirBoss Flexible Products, LLC ("AFP") (formerly AirBoss Flexible Products Co.)	Michigan	100% (100%)
AirBoss Defense Group Ltd. ("ADG Canada")	Quebec	100% (55%*)
AirBoss Defense Group, LLC ("ADG USA")	Delaware	100% (55%*)
Critical Solutions International, LLC ("CSI") (formerly Critical Solutions International, Inc.)	Texas	100% (55%*)

* See Note 3, AirBoss Defense Group Transactions

NOTE 2 BASIS OF PREPARATION

Statement of compliance

The interim condensed consolidated financial statements should be read in conjunction with the Company’s 2020 audited annual consolidated financial statements and accompanying notes.

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

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 12, 2021.

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

NOTE 3 AIRBOSS DEFENSE GROUP TRANSACTIONS

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

The Company contributed the shares of ADG Canada and the membership interests of ADG USA to newly formed Canadian and U.S. entities that formed AirBoss Defense Group, in exchange for a note receivable of $45,000 and equity interests. Critical Solutions Holdings Inc. ("CSH") contributed all the shares of CSI and transferred a $15,000 receivable from CSI in exchange for equity interests. Following these transactions AirBoss owned 55% of the equity in ADG and a $60,000 Vendor Takeback Notes due from ADG, with the remaining 45% of the equity interest in ADG owned by CSH. The acquisition of control of the CSI business has been accounted for as a business combination and recognized at fair value. The sale of a non-controlling interest in the Company's former ADG Canadian and US businesses resulted in a gain of $13,655, which is recognized in other equity.

Acquisition-related costs

The Company incurred acquisition-related costs of $3,785 on professional fees and due diligence costs that were included in “general and administrative expenses” in 2020 and 2019. In the first quarter of 2021 the Company recorded nil expenses (2020: $2,293).

Identifiable assets acquired and liabilities assumed

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

In thousands of US dollars	
Fair value of assets acquired:	
Cash and cash equivalents	4,498
Trade and other receivables	2,203
Prepaid expenses	184
Inventories	3,360
Property, plant, and equipment	1,335
Customer relationships	17,900
Brand	6,000
Other intangible assets	2,150
Investments	493
Total assets	38,123
Value of liabilities assumed:	
Trade and other payables	3,758
Vendor Takeback Note	15,000
Total liabilities assumed	18,758
Net assets acquired	19,365

The fair value of CSI's intangible assets (customer relationships, brand and patented technology) have been measured through an independent valuation based on the following key assumptions: revenue forecasts, estimated annual attrition rates, discount rates and a royalty rates and using the following methodologies: Relief From Royalty, Multi Period Excess Earnings, and Cost Avoidance.

Goodwill

Goodwill arising from the acquisition has been recognized as follows.

In thousands of US dollars	
Consideration transferred:	
NCI, based on their proportionate interest in ADG Canada, ADG USA and CSI	23,538
Paid in capital on dilution of ownership interest in ADG Canada and ADG USA	13,655
Vendor Takeback Note transferred from CSH	(15,000)
Less: Fair value of net assets acquired	**(19,365)**
Goodwill	2,828

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

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

Acquisition of non-controlling interest in ADG

On October 26, 2020, the Company acquired the 45% ownership of AirBoss Defense Group held by CSH in return for 3.5 million shares of the Company having a fair value of $47,597 (less issuance costs of $178) and $20,000, with $5,000 paid at closing, and installments of $5,000 paid at each three-month anniversary. The fair value of the Company's shares issued was based on the listed share price at October 23, 2020 of CAD $17.87 per share. The excess of the total consideration over the carrying value of the non-controlling interest of $46,097 was accounted in the contributed surplus of $13,655 and retained earnings of $7,844.

NOTE 4 TRADE AND OTHER RECEIVABLES

In thousands of US dollars	**March 31, 2021**	December 31, 2020
Trade receivables	**81,491**	66,692
Less: expected credit loss	**(494)**	(750)
	80,997	65,942
Other receivables	**2,596**	2,660
	83,593	68,602

Impairment losses

The aging of trade receivables at the reporting date was:

	March 31, 2021		December 31, 2020	
In thousands of US dollars	**Gross**	**Impairment**	Gross	Impairment
Within terms	**58,984**	**—**	49,544	—
Past due 0-30 days	**16,301**	**—**	12,621	—
Past due 31-120 days	**6,206**	**(494)**	4,527	(750)
	81,491	**(494)**	66,692	(750)

The continuity of the allowance for doubtful accounts was:

In thousands of US dollars	**March 31, 2021**	December 31, 2020
Balance at January 1	**(750)**	(481)
Impairment loss recognized	**—**	(755)
Collected	**256**	486
Balance	**(494)**	(750)

NOTE 5 INVENTORIES

In thousands of US dollars	**March 31, 2021**	December 31, 2020
Raw materials and consumables	**36,865**	33,147
Work in progress	**4,613**	3,743
Finished goods	**20,015**	14,229
Inventory in transit	**153**	863
	61,646	51,982
Provisions	**(9,746)**	(6,457)
	51,900	45,525

An inventory charge of $3,289 (2020: charge of $54) was included in cost of sales for the increase in provisions.

NOTE 6 OTHER ASSETS

In thousands of US dollars	Share purchase loans	Other	Total
Balance at January 1, 2020	961	446	1,407
Accrued interest	11	—	11
Interest paid	(15)	—	(15)
Repayment of loan	(248)	—	(248)
Acquired on acquisition of subsidiary	—	493	493
Effect of movements in exchange rates	(5)	—	(5)
Balance at December 31, 2020	704	939	1,643
Accrued interest	2	—	2
Interest received	(3)	—	(3)
Effect of movements in exchange rates	9	—	9
Balance at March 31, 2020	712	939	1,651

NOTE 7 LOANS AND BORROWINGS

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

In April 2021 the Company's credit facility was amended to increase the revolving facility from $60,000 to $150,000.

During the first quarter of 2021, interest expense on the term debt was $285 (2020: $504), excluding gains and losses related to its interest rate swap agreement.

NOTE 8 DERIVATIVES NOT DESIGNATED IN A FORMAL HEDGE RELATIONSHIP

Foreign exchange hedge

At March 31, 2021, the Company had contracts to sell USD $15,859 from April 2021 to September 2021 for Canadian dollars ("CAD") $20,300. The fair value of these contracts, representing an unrealized gain of $284, are included in trade and other receivables, including derivatives on the statement of financial position. For the quarter ended March 31, 2021, the unrealized changes in fair value, representing a loss of $336 (2020: loss of $1,511), are recorded on the statement of profit as other income (expense).

At December 31, 2020, the Company had contracts to sell US $16,031 from January 2021 to July 2021 for CAD $21,200. The fair value of those contracts, representing an unrealized gain of $620 are included in trade and other receivables, including derivatives on the statement of financial position.

Interest rate swap

In December 2020, the Company entered into an interest rate swap agreement for a notional amount of $28,125 ($27,656 as at March 31, 2021) amortizing down to $24,375 at maturity in January 2023. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 0.265%. This swap agreement replaces an old swap agreement that matured in December 2020 that calculated interest based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%.

For the quarter ended March 31, 2021, interest expense on the swap agreement was $9 (2020: nil).

At March 31, 2021, the fair value of this agreement, representing a loss of $36, is included in loans and borrowings on the statement of financial position. For the quarter ended March 31, 2021, the change in the fair value, representing a gain of $21 (2020: loss of $233) is recorded on the statement of profit as finance costs.

At December 31, 2020, the fair value of this agreement, representing a loss of $57, was included in loans and borrowings on the statement of financial position.

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

NOTE 9 PROVISIONS

In thousands of US dollars	Site restoration	PSUs and DSUs	Total
Balance at January 1, 2020	74	655	729
Provisions accrued during the year	—	1,936	1,936
Payments during the year	—	(117)	(117)
Forfeitures during the year	—	(93)	(93)
Foreign exchange	—	176	176
Balance at December 31, 2020	74	2,557	2,631
Less: amount due within one year	—	(573)	(573)
Non-current balance at December 31, 2020	74	1,984	2,058
Balance at December 31, 2020	74	2,557	2,631
Provisions recovered during the period	—	3,988	3,988
Payments during the period	—	(1,069)	(1,069)
Foreign exchange	6	62	68
Balance at March 31, 2021	80	5,538	5,618
Less: current portion due within one year	—	(391)	(391)
Non-current balance at March 31, 2021	80	5,147	5,227

No legal provisions are recognized at March 31, 2021 and December 31, 2020.

Performance Stock Units ("PSUs")

The Company has issued certain executives with an aggregate of 228,785 PSUs pursuant to the terms and conditions of the Omnibus Plan. Each performance award entitles the holder to receive on vesting a cash payment equal to the product of (a) the fair market value of a common share as of the vesting date and (b) a performance factor between 0.5 and 1.5, based on the level of achievement of predetermined performance objectives over the vesting period generally. The performance stock units vest three years following the grant date.

Performance stock units	**March 31, 2021**	December 31, 2020	March 31, 2020
January 1	**201,210**	83,998	83,998
New issuances	**52,818**	191,233	173,619
Forfeitures	**—**	(46,906)	(4,496)
Settlements	**(25,243)**	(27,115)	(27,115)
Balance	**228,785**	201,210	226,006

During the quarter the Company recognized costs of $1,921 (2020: recovery of $17) related to the plan.

Deferred Stock Units ("DSUs")

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

Deferred stock units	**March 31, 2021**	December 31, 2020	March 31, 2020
January 1	**97,060**	72,672	72,672
New issuances	**6,835**	31,976	10,901
Settlements	**—**	(7,588)	—
Balance	**103,895**	97,060	83,573

At March 31, 2021, independent directors held 103,895 DSUs. During the quarter the Company recognized costs of $2,066 (2020: $12) related to DSUs issued under the Omnibus Plan.

NOTE 10 CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital and Contributed Surplus

Issued share capital is as follows:

In thousands of shares	**March 31, 2021**	December 31, 2020	March 31, 2020
January 1	**26,909**	23,392	23,392
Issued to acquire subsidiary	**—**	3,500	—
Exercise of stock options	**76**	9	—
Exercise of deferred share units	**—**	8	—
Balance	**26,985**	26,909	23,392

Capital and other components of equity

Contributed surplus

Contributed surplus is comprised of the difference between the book value per share and the purchase price paid for shares acquired for cancellation by the Company and stock-based compensation of employees and non-employees.

Stock options outstanding as at March 31

In thousands of options	**2021**	2020
Stock options granted and outstanding	**1,695**	1,914

Inputs for measurement of grant date fair values

The grant date fair values of all options were measured based on the Black-Scholes model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

Fair value of stock options and assumptions

In Canadian dollars	**March 2021**	November 2020	June 2020	March 2020
Fair value at grant date	**$15.18**	$4.67	$5.06	$0.66
Share price at grant date	**$39.77**	$16.68	$16.68	$4.84
Exercise price	**$36.01**	$17.53	$16.30	$5.14
Expected volatility (weighted average volatility)	**41.8%**	39.4%	39.7	32.6
Option life (expected weighted average life)	**5 years**	5 years	5 years	5 years
Expected dividends	**0.7%**	1.7%	1.7%	5.8%
Risk-free interest rate (based on government bonds)	**1.0%**	0.5%	0.4%	0.8%

Stock option expense

During the quarter the Company recognized as costs of $88 (2020: $24) relating to option grants in general and administrative expenses of the statement of profit.

Dividends

Dividends on common shares were paid to shareholders of record in 2021 and 2020 as follows:

		2021		2020
Shareholder of record at:	**$CAD/share**	**Date Paid**	$CAD/share	Date Paid
March 31	**0.07**	**April 15, 2021**	0.07	April 15, 2020

The dividend payable at March 31, 2021 was $1,502 (March 31, 2020: $1,154).

NOTE 11 EARNINGS PER SHARE

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

For the three-month periods ended March 31 *In thousands of US dollars, except share amounts outstanding, per share amounts in US dollars*	**2021**	2020
Numerator for basic and diluted earnings per share:		
Net income	**6,319**	(520)
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	**26,921**	23,392
Dilution effect of stock options	**1,109**	—
Dilution of effect of deferred stock units	**97**	—
Diluted weighted average number of shares outstanding	**28,127**	23,392
Net income per share:		
Basic	**0.23**	(0.02)
Diluted	**0.22**	(0.02)

For the quarter ended March 31, 2021, nil options (2020: 1,914,011) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

NOTE 12 INCOME TAXES

For the three-month periods ended March 31 *In thousands of US dollars*	**2021**	2020
Current tax expense:		
Current period	**4,129**	1,225
Adjustment for prior period(s)	**—**	(187)
	4,129	1,038
Deferred tax expense:		
Origination and reversal of temporary differences	**(1,268)**	206
Adjustment for prior period(s)	**—**	—
	(1,268)	206
Total income tax expense	**2,861**	1,244

NOTE 13 GOVERNMENT ASSISTANCE

On May 1, 2020, the Company received a $6,422 loan pursuant to the Paycheck Protection Program (the “PPP”) under Division A, Title I of the CARES Act, to fund certain payroll and business expenses of the Company’s Michigan and North Carolina operations. This loan bears interest at 1.0% and matures on May 1, 2022 and may be prepaid at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, group health care benefits, rent, and utilities. The Company used the entire loan amount for qualifying expenses. The loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

The Government of Canada provide the Canada Emergency Wage Subsidy (“CEWS”) and the Canada Emergency Rent Subsidy ("CERS") to support businesses affected by COVID-19 based on certain criteria, including demonstration of revenue declines as result of COVID-19. The Company recorded CEWS and CERS as a reduction to cost of sales and operating expenses of $1,651 and $423, respectively, in the consolidated statement of profit (2020: nil).

During the first quarter of 2020, the Company recognized a grant of $500 that was offset against the cost of plant and equipment.

Scientific research and investment tax credits of $295 (2020: $133) were recognized in the quarter and research and development costs were reduced accordingly.

NOTE 14 POST RETIREMENT BENEFITS

Defined Contribution Plan

AirBoss of America Corp. maintains registered retirement savings plan and defined contribution plans for its employees. Total expenses for this plan during the period were $199 (2020: $83).

ANC maintains a 401(k) plan for its employees. Total expenses for this plan during the period were $33 (2020: $19).

AFP maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were $117 (2020: $108).

ADG USA maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were $41 (2020: $26).

ADG Canada employees are covered under various registered and unregistered defined contribution plans. Total expenses for these plans during the period were $56 (2020: $65).

CSI maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were $21 (2020: $107).

Multi-Employer Pension Plan

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

(a) Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
(b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
(c) If AFP chooses to stop participating in the multi-employer plan, AFP may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

During the quarter AFP made contributions of $73 (2020: $71) to the multi-employer pension plan. The unfunded vested benefit ratio was 12.8% at December 31, 2020. The Steel Workers Pension Trust was in a net deficit at December 31, 2020 and AFP's portion of the deficit was unknown. The collective bargaining agreement requires that AFP contributes $0.40 for each hour worked by eligible employees during the preceding wage month.

NOTE 15 SEGMENTED INFORMATION

The Company the following reportable segments:

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

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

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

Information about reportable segments three-months ended Mar 31	AirBoss Defense Group		Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Segment net sales	**45,062**	35,059	**37,216**	34,254	**32,357**	30,062	**—**	—	**114,635**	99,375
Inter-segment net sales	**(1,246)**	(912)	**(4,944)**	(4,266)	**(1,116)**	—	**—**	—	**(7,306)**	(5,178)
External net sales	**43,816**	34,147	**32,272**	29,988	**31,241**	30,062	**—**	—	**107,329**	94,197
Depreciation, amortization, and impairment	**2,173**	2,184	**1,090**	753	**1,340**	1,226	**60**	72	**4,663**	4,235
Segment measure of profit (loss)	**14,928**	5,081	**2,977**	3,774	**(2,965)**	(1,041)	**(5,213)**	(4,614)	**9,727**	3,200
Finance costs									**547**	1,169
Income tax expense									**2,861**	1,244
Net Income (loss)									**6,319**	787
Segment assets[1]	**201,570**	198,450	**88,340**	82,150	**82,544**	75,597	**4,710**	11,172	**377,164**	367,369
Segment liabilities[1]	**47,337**	42,396	**29,749**	25,856	**23,698**	22,788	**76,129**	81,741	**176,913**	172,781
Capital additions	**4,883**	664	**917**	894	**3,609**	816	**372**	267	**9,781**	2,641

[1] Comparative figures as at December 31, 2020.

Notes to CFS (cont'd)

Geographical segments

The Company operates manufacturing facilities and sales offices in the US and Canada, selling primarily in North American markets.

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

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

	Net Sales		Non-current assets		Non-current assets
	Three-months ended March 31		March 31		December 31
In thousands of US dollars	**2021**	2020	**2021**	2020	2020
Canada	**10,553**	18,754	**45,104**	48,230	45,357
United States	**81,852**	68,190	**118,880**	112,304	113,287
Other countries	**14,924**	7,253	**—**	—	—
	107,329	94,197	**163,984**	160,534	158,644

Major customers

Net sales from one customer represented approximately 19.4% (2020: 7.5%) of the Company's total net sales. Five customers represented 39.5% (2020: 32.1%) of the Company's total net sales.

Major products

	Three-months ended March 31	
In thousands of US dollars	**2021**	2020
AirBoss Defense Group		
Defense	**36,354**	27,408
Industrial	**7,462**	6,739
	43,816	34,147
Rubber Solutions		
Tolling	**2,673**	2,765
Mixing	**29,599**	27,223
	32,272	29,988
Engineered Products	**31,241**	30,062
Total	**107,329**	94,197

NOTE 16 RELATED PARTIES

Transactions with Related Parties

During the quarter, the Company paid rent for the corporate office of CAD $45 (2020: CAD $45) to a company controlled by the Chairman of the Company.

During the quarter, the Company paid fees for the use of a facility in South Carolina of approximately $8 (2020: $9) to a company in which the Chairman is an officer.

In December 2016, the Company provided a share purchase loan of CAD $250 to the former Chief Financial Officer that was repaid in June 2020. In March 2018, the Company provided a share purchase loan of CAD $500 to the President and Chief Operating Officer. On June 28, 2019, the Company provided share purchase loans of CAD $300 to the Executive Vice President, General Counsel; and CAD $92 to the President and Chief Operating Officer. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities, or the fifth anniversary of the issuance date. All share purchase loans issued prior to 2019 bear interest at 1% annually and all subsequent loans share purchase loans bear interest at 2% annually. In all cases, loans are full recourse and interest is due and payable semi-annually. In total, 86,807 shares of the Company having a fair value of $2,779 were pledged as collateral on these loans. At March 31, 2021, the loan receivables of $712, including accrued interest, were included in Other Assets on the statement of financial position. During the quarter, interest revenue of $3 (2020: $4) was received.

Corporate Information

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