AIRBOSS OF AMERICA CORP.

2021 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 10, 2021 and should be read in conjunction with the Unaudited Interim Condensed Consolidated Financial Statements and Notes for the three- and six-month period ended June 30, 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 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.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)

- Highest quarterly earnings per share in the Company's history, growing diluted EPS by 141% to $0.65 for the quarter ended June 30, 2021 ("Q2 2021") compared to $0.27 for the quarter ended June 30, 2020 ("Q2 2020");
- Commenced trading on OTCQX® Best Market in the United States;
- Completed acquisition of Blackbox Biometrics®, the 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.;
- Increased dividend 43% to $CAD 0.10 per share from $CAD 0.07 per share; and
- Commenced deliveries of nitrile gloves under the recently awarded HHS contract worth up to $288 million.

Selected Financial Information

In thousands of US dollars, except share data	Three-months ended June 30		Six-months ended June 30	
(unaudited)	**2021**	2020	**2021**	2020
Financial results:				
Net sales	**118,449**	112,450	**225,778**	206,647
Profit	**18,320**	14,383	**24,639**	15,170
Profit attributable to owners of the Company	**18,320**	6,675	**24,639**	6,155
Adjusted Profit attributable to owners of the Company[2]	**18,474**	6,710	**24,793**	8,483
Earnings per share (US$)				
– Basic	**0.68**	0.29	**0.91**	0.26
– Diluted	**0.65**	0.27	**0.87**	0.26
Adjusted Earnings per share[2] (US$)				
– Basic	**0.68**	0.29	**0.92**	0.36
– Diluted	**0.65**	0.27	**0.88**	0.35
EBITDA[2]	**24,914**	25,630	**39,304**	33,065
Adjusted EBITDA[2]	**25,068**	25,665	**39,458**	35,393
Net cash provided by operating activities	**(6,693)**	17,323	**(10,669)**	29,732
Free cash flow[2]	**(9,731)**	13,947	**(18,947)**	24,514
Dividends declared per share (CAD$)	**0.10**	0.07	**0.17**	0.14
Capital additions	**3,055**	3,376	**12,836**	6,017
Financial position:	**June 30, 2021**			December 31, 2020
Total assets	**393,093**			367,369
Term loan and other debt[1]	**76,051**			90,734
Net Debt[2]	**12,884**			(9,718)
Shareholders' equity	**216,718**			194,588
Outstanding shares*	**26,984,987**			26,908,802
**26,984,987 at August 10, 2021*				

[1]Term loan and other debt as at June 30, 2021 and December 31, 2020 include lease liabilities of $17,014 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 June 30 (unaudited)		Six-months ended June 30 (unaudited)	
In thousands of US dollars	**2021**	2020	**2021**	2020
EBITDA:				
Profit	**18,320**	14,383	**24,639**	15,170
Finance costs	**1,134**	802	**1,681**	1,971
Depreciation, amortization and impairment	**4,830**	4,013	**9,493**	8,248
Income tax expense	**630**	6,432	**3,491**	7,676
EBITDA	**24,914**	25,630	**39,304**	33,065
Acquisition fees	**154**	35	**154**	2,328
Adjusted EBITDA	**25,068**	25,665	**39,458**	35,393

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

	Three-months ended June 30 (unaudited)		Six-months ended June 30 (unaudited)	
In thousands of US dollars	**2021**	2020	**2021**	2020
Adjusted profit attributable to owners of the Company:				
Profit attributable to owners of the Company	**18,320**	6,675	**24,639**	6,155
Acquisition fees	**154**	35	**154**	2,328
Adjusted profit attributable to owners of the Company	**18,474**	6,710	**24,793**	8,483
Basic weighted average number of shares outstanding	**26,985**	23,399	**26,953**	23,396
Diluted weighted average number of shares outstanding	**28,374**	24,427	**28,269**	23,962
Adjusted earnings per share (in US dollars):				
Basic	**0.68**	0.29	**0.92**	0.36
Diluted	**0.65**	0.27	**0.88**	0.35

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

In thousands of US dollars	**June 30, 2021** (unaudited)	December 31, 2020
Net debt:		
Loans and borrowings - current	**10,938**	27,083
Loans and borrowings - non-current	**65,113**	63,651
Leases included in loans and borrowings	**(17,014)**	(13,482)
Cash and cash equivalents	**(46,153)**	(86,970)
Net debt	**12,884**	(9,718)

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

	Three-months ended June 30 (unaudited)		Six-months ended June 30 (unaudited)	
In thousands of US dollars	**2021**	2020	**2021**	2020
Free cash flow:				
Net cash provided by (used in) operating activities	**(6,693)**	17,323	**(10,669)**	29,732
Acquisition of property, plant and equipment	**(2,870)**	(3,105)	**(7,743)**	(5,109)
Acquisition of intangible assets	**(168)**	(271)	**(541)**	(609)
Proceeds from government grant	**—**	—	**—**	500
Proceeds from disposition	**—**	—	**6**	—
Free cash flow	**(9,731)**	13,947	**(18,947)**	24,514
Basic weighted average number of shares outstanding	**26,985**	23,399	**26,953**	23,396
Diluted weighted average number of shares outstanding	**26,985**	24,427	**26,953**	23,962
Free cash flow per share (in US dollars):				
Basic	**(0.36)**	0.60	**(0.70)**	1.05
Diluted	**(0.36)**	0.57	**(0.70)**	1.02

OVERVIEW

The Company has continued to build momentum in Q2 2021 despite the continued impact of the COVID-19 pandemic. The emergence of new aggressive COVID-19 strains has created global challenges even as countries attempt to reopen businesses and economies in a staggered and measured manner. Despite these rapidly evolving global challenges, AirBoss has continued to build on its results, further solidifying its position in the personal protective equipment ("PPE"), health care and survivability sectors and 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 with growth in sales and profitability compared to Q2 2020. The Company believes it is poised for continued success during the remainder of the year notwithstanding the ongoing challenges presented by COVID-19. Further recovery of volumes that have been impacted by COVID-19 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 current COVID-19 impacts globally and across North America in particular, which remains a key market for the Company. Supply chain issues continue to present significant challenges due to global freight constraints, material availability and significant raw material price increases, as well as increasing demand outpacing traditional supply models. A combination of domestic sourcing, advanced buying tactics and the development of alternative sources have been utilized to attempt to mitigate the significant risks associated with these challenges, however we expect and have anticipated further constraints on our supply chain throughout the remainder of 2021.

AirBoss has been able to take advantage of ongoing opportunities supporting continued demand for personal protective equipment ("PPE") which has offset the COVID-19 related impact on the Engineered Products and Rubber Solutions segments. This quarter saw strong momentum at AirBoss Defense Group ("ADG") with the completion of the remaining portion of the US$121 million order for powered air purifying respirators ("PAPRs") from the U.S. Department for Health and Human Services ("HHS"), awarded in Q2 2020 and the commencement of deliveries under the recently awarded HHS contract for ASPR nitrile patient examination gloves worth up to US$288 million.

ADG also closed the acquisition of 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 continues to work on the significant opportunities in its sales pipeline which 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 segments during the second half of 2021.

AirBoss continued to effectively manage its operations 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 2020, which was heavily impacted by COVID-19 disruptions. 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 is seeing continued challenges despite significant vaccination deployment.

In the case of the Engineered Products segment, the Company continued to focus on its operational improvement plan including managing variable costs and focusing on sustaining a stable hourly workforce while weathering the volume volatility in the automotive sector and specifically on AirBoss' products for SUV, light truck and mini-van platforms. Despite global supply chain challenges and shutdowns in Asia adding to logistical challenges associated with the supply of certain molded products, the Company continued its focus and commitment to drive efficiencies and best in class automation as evidenced by the installation of a series of new injection presses, the latest in a multi-year investment to upgrade this segment's capital equipment to the latest standards. The Engineered Products segment has also continued to sustain the production of certain molded defense products for ADG at its Auburn Hills, MI facility.

The Rubber Solutions segment continued to focus on optimizing its equipment capacity, specifically in Scotland Neck, NC, while continuing to optimize the use of the automated small ingredient weighment system in Kitchener which is running at steady capacity. While this segment saw progressive traction this quarter, continued significant raw material price increases coupled with international freight constraints proved challenging on the supply chain which carried over from the prior quarter and was further challenged by labor shortages primarily driven by the pandemic which are anticipated to continue into the next quarter. The Company's development and sales in niche products including colored rubber continued to grow in line with the Company's margin expansion strategy with new customers. Additionally, the Company has continued to develop new compounds, proprietary compounds, and continuous improvement on existing compounds to maintain its leadership position as a supplier of customer rubber compounds and formulations. The Company continues to take advantage of its scale and global supply chain management expertise to onboard new customers seeking new suppliers in the current environment to drive volume and growth in its core markets. The continued focus on operational excellence supported production of a broader array of compounded products (white and color), as well as providing enhanced flexibility in attracting and fulfilling new business. The Company has also made further inroads in utilization of the small volume specialty 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 PPE for first responders and healthcare professionals will continue to be a necessity, a priority and a requirement 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 to PPE acquisition 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, ADG 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 sound financial position. The strong performance of the business 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 June 30, 2021 compared to 2020

NET SALES

Consolidated net sales for Q2 2021 increased by 5.3% to $118,449 compared with Q2 2020. Consolidated net sales for 2021 year-to-date increased by 9.3% to $225,778 compared with 2020 year-to-date. The increases were attributable to the Rubber Solutions and Engineered Products segments and ADG's substantial completion of the HHS PAPR contract supported by its continued integration of Critical Solutions International ("CSI"). The increases were partially offset by the large FEMA contract substantially completed by ADG in Q2 2020.

Three-months ended June 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Inter-segment net sales	Total
Net Sales	**2021**	**56,785**	**41,860**	**27,627**	**(7,823)**	**118,449**
	2020	82,020	23,351	13,517	(6,438)	112,450
Increase (decrease) $		(25,235)	18,509	14,110	(1,385)	5,999
Increase (decrease) %		(30.8)	79.3	104.4	21.5	5.3

Six-months ended June 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Inter-segment net sales	Total
Net Sales	**2021**	**101,847**	**79,076**	**59,984**	**(15,129)**	**225,778**
	2020	117,079	57,605	43,579	(11,616)	206,647
Increase (decrease) $		(15,232)	21,471	16,405	(3,513)	19,131
Increase (decrease) %		(13.0)	37.3	37.6	30.2	9.3

AirBoss Defense Group

Net sales in the AirBoss Defense Group segment for Q2 2021 decreased by 30.8% to $56,785, from $82,020 in Q2 2020. The decrease was primarily the result of the large contract from FEMA substantially delivered in Q2 2020, which was partially offset by the completion in Q2 2021 of deliveries under the HHS PAPR contract in addition to the commencement of deliveries under the new HHS nitrile examination glove order.

Net sales in the AirBoss Defense Group segment for 2021 year-to-date decreased by 13.0% to $101,847, from $117,079 for 2020 year-to-date. The decrease was primarily the result of the large contract from FEMA delivered in Q2 2020, partially offset by the completion in Q2 2021 of deliveries under the HHS PAPR contract in addition to the commencement of deliveries under the new HHS nitrile examination glove order.

Rubber Solutions

Net sales in the Rubber Solutions segment for Q2 2021 increased by 79.3% to $41,860, from $23,351 in Q2 2020. Volume was up 78.9% with increases across the vast majority of sectors due to increased momentum at most customer's operations despite continuing supply chain challenges related to raw material supply and elevated freight costs. Tolling volume was up 568% while non-tolling was up 57.6%. In tolling applications, the Company only realizes net sales on the provision of compounding services for customer-supplied material, versus non-tolling where AirBoss also supplies the raw material inputs that are reflected in net sales.

Net sales in the Rubber Solutions segment for 2021 year-to-date increased by 37.3% to $79,076, from $57,605 for 2020 year-to-date. Volume was up 32.8% 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 up 46.2% while non-tolling was up 29.8%.

Engineered Products

Net sales in the Engineered Products segment for Q2 2021 increased by 104.4% to $27,627, from $13,517 in Q2 2020. The increase was due to much stronger volumes in the SUV, light truck and mini-van platforms in addition to continued production of certain molded defense products. Volume and sales improved compared to Q2 2020 which saw closures of most of the original equipment manufacturers ("OEMs") and Tier 1 customers in the industry; however, the segment experienced softness towards the end of the quarter specifically surrounding the global electronic chip shortages which continue to challenge production schedules across all OEMs and Tier 1 suppliers combined with raw material shortages and freight and logistics bottlenecks.

Net sales in the Engineered Products segment for 2021 year-to-date increased by 37.6% to $59,984, from $43,579 for 2020 year-to-date. The increase was due to stronger volumes in the SUV, light truck and mini-van platforms compared to the same period in the prior year, in addition to continued production of certain molded defense products. Compared to the same period of 2020, volume and sales improved as the automotive sector continued to manage volume volatility given the challenges with the global electronic chip shortages combined with raw material shortages in addition to freight and logistics constraints.

GROSS PROFIT

Consolidated gross profit for Q2 2021 increased by $1,830 to $33,303, compared with Q2 2020, driven by improved volume at Rubber Solutions and Engineered Products further supported by government-directed subsidies, partially offset by lower volume at ADG related to the FEMA contract in the prior year period noted above. Gross profit as a percentage of net sales remained relatively consistent at 28.1% in Q2 2021 compared with 28.0% for Q2 2020.

Consolidated gross profit for 2021 year-to-date increased by $9,124 to $59,078 compared with 2020 year-to-date, driven by higher volume from Rubber Solutions and Engineered Products and margin improvement at ADG, partially offset by lower volumes at ADG related to the FEMA contract in the prior year period noted above. Gross profit as a percentage of net sales increased to 26.2% for 2021 year-to-date compared with 24.2% for 2020 year-to-date. These increases were primarily as a result of the margin improvement at ADG, supported by the continued management of controllable overhead costs in all segments further supported by government-directed wage subsidies.

Three-months ended June 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Total
Gross Profit	**2021**	**25,161**	**5,490**	**2,652**	**33,303**
	2020	28,253	3,918	(698)	31,473
Increase (decrease) $		(3,092)	1,572	3,350	1,830
% of net sales	**2021**	**44.3**	**13.1**	**9.6**	**28.1**
	2020	34.4	16.8	(5.2)	28.0

Six-months ended June 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Total
Gross Profit	**2021**	**46,007**	**10,699**	**2,372**	**59,078**
	2020	38,910	9,821	1,223	49,954
Increase (decrease) $		7,097	878	1,149	9,124
% of net sales	**2021**	**45.2**	**13.5**	**4.0**	**26.2**
	2020	33.2	17.0	2.8	24.2

AirBoss Defense Group

Gross profit at AirBoss Defense Group for Q2 2021 decreased by 10.9% to $25,161 (44.3% of net sales), from $28,253 (34.4% of net sales) in Q2 2020. The decrease was primarily the result of the large contract from FEMA substantially delivered in Q2 2020 and the reduction of government-directed wage subsidies which was partially offset by the completion in Q2 2021 of deliveries under the HHS PAPR contract in addition to the commencement of deliveries under the new HHS nitrile examination glove order.

Gross profit at AirBoss Defense Group for 2021 year-to-date increased by 18.2% to $46,007 (45.2% of net sales), from $38,910 (33.2% of net sales) for 2020 year-to-date. The increase was primarily due to higher volume associated with awards from HHS compared to the same period in 2020 despite the large contract from FEMA substantially delivered in Q2 2020 partially offset by a decrease in government-directed wage subsidies.

Rubber Solutions

Gross profit at Rubber Solutions for Q2 2021 increased by 40.1% to $5,490 (13.1% of net sales) from $3,918 (16.8% of net sales) in Q2 2020. This was primarily a result of increased tolling and non-tolling volumes as noted above compared to Q2 2020 and managing controllable overhead costs, partially offset by increased raw material, labor and logistics costs and a decrease in government-directed subsidies.

Gross profit at Rubber Solutions for 2021 year-to-date increased by 8.9% to $10,699 (13.5% of net sales), from $9,821 (17.0% of net sales) for 2020 year-to-date, primarily as a result of increased tolling and non-tolling volumes compared to the same period in 2020 and managing controllable overhead costs, partially offset by raw material, labor and logistics costs and a decrease in government-directed subsidies.

Engineered Products

Gross profit at the Engineered Products segment for Q2 2021 increased to $2,652, from $(698) in Q2 2020. This was primarily a result of higher volumes in the automotive sector and a continued focus on controllable operational cost containment, supported by government-directed subsidies partially offset by higher labor, material and logistics costs

Gross profit at the Engineered Products segment for 2021 year-to-date increased by 93.9% to $2,372 (4.0% of net sales), from $1,223 (2.8% of net sales) for 2020 year-to-date. This was primarily a result of higher volumes in the automotive sector, a continued focus on controllable operational cost containment and managing overhead costs, supported by government-directed subsidies, partially offset by higher labor, material and logistics costs.

OPERATING EXPENSES

Consolidated operating expenses for Q2 2021 increased by $3,363. The increase was primarily due to higher administrative costs and a smaller foreign exchange gain partially offset by government-directed subsidies.

Consolidated operating expenses for 2021 year-to-date increased by $4,130. The increase was primarily due to higher stock based compensation expenses and administrative costs partially offset by a foreign exchange gain (compared to a loss in the comparable period), government-directed subsidies.

Three-months ended June 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	**2021**	**7,547**	**1,804**	**2,034**	**1,834**	**13,219**
	2020	4,446	1,127	2,822	1,461	9,856
Increase (decrease) $		3,101	677	(788)	373	3,363
% of net sales	**2021**	**13.3**	**4.3**	**7.4**	**N/A**	**11.2**
	2020	5.4	4.8	20.9	N/A	8.8

Six-months ended June 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	**2021**	**13,465**	**4,036**	**4,719**	**7,047**	**29,267**
	2020	10,022	3,256	5,784	6,075	25,137
Increase (decrease) $		3,443	780	(1,065)	972	4,130
% of net sales	**2021**	**13.2**	**5.1**	**7.9**	**N/A**	**13.0**
	2020	8.6	5.7	13.3	N/A	12.2

AirBoss Defense Group

AirBoss Defense Group's operating expenses for Q2 2021 increased by $3,101 to $7,547 due to higher administration costs and lower government-directed wage subsidies to support businesses impacted by COVID-19.

AirBoss Defense Group's operating expenses for 2021 year-to-date increased by $3,443 to $13,465 due to higher administration costs.

Rubber Solutions

Rubber Solutions' operating expenses for Q2 2021 increased by $677 to $1,804. The change was primarily due to higher administration costs and lower government-directed wage subsidies to support businesses impacted by COVID-19.

Rubber Solutions' operating expenses for 2021 year-to-date increased by $780 to $4,036. The change was primarily due to higher administration costs partially offset by a foreign exchange gain (compared to a loss in the comparable period).

Engineered Products

Engineered Products' operating expenses for Q2 2021 decreased by $788 to $2,034 due to government-directed subsidies to support businesses impacted by COVID-19.

Engineered Products' operating expenses for 2021 year-to-date decreased by $1,065 to $4,719 due to lower administration costs and government-directed subsidies.

Unallocated Corporate Costs

Unallocated corporate costs for Q2 2021 increased by $373 to $1,834. The increase was principally due to a lower foreign exchange gain and lower government-directed wage subsidies partially offset by lower stock based compensation expenses.

Unallocated corporate costs for 2021 year-to-date increased by $972 to $7,047. The increase was principally due to increased stock based compensation expenses and lower government-directed wage subsidies partially offset by a foreign exchange gain (compared to a loss in the comparable period) and transaction costs in the comparable period related to the ADG transaction.

FINANCE COSTS

Finance costs for three- and six-months ended June 30, 2021 were $1,134 (2020: $802) and 1,681 (2020: 1,971). The increase was primarily due to fees for letters of credit to acquire nitrile patient examination gloves for HHS. For 2021 year-to-date this increase was partially offset by lower interest on term debt and mark-to-market losses on the interest rate swap.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $630 in Q2 2021 (Q2 2020: $6,432) for an effective income tax rate of 3.3% (30.9% in Q2 2020). The effective tax rate was lower in the current quarter primarily due to the recognition of temporary differences not previously recognized.

The Company recorded a 2021 year-to-date income tax expense of $3,491 (2020: $7,676) for an effective income tax rate of 12.4% (2020: 33.6%). The effective tax rate was lower in the current year primarily due to the recognition of temporary differences not previously recognized.

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 $18,320 for Q2 2021, compared with $14,383 for Q2 2020. The increase was primarily attributable to lower income tax expense.

Profit totaled $24,639 for 2021 year-to-date compared with $15,170 for 2020 year-to-date. The increase was primarily attributable to increased profitability from ADG and lower income tax expense.

Basic and fully diluted net earnings per share in Q2 2021 were $0.68 and $0.65, respectively compared with $0.29 and $0.27, respectively, for Q2 2020. The increase in profitability is for the reasons noted above and owning 100% of ADG, compared to owning 55% in Q2 2020.

Basic and fully diluted net earnings per share for 2021 year-to-date was $0.91 and $0.87, respectively compared with $0.26 and $0.26, respectively, for 2020 year-to-date. The increase in profitability is for the reasons noted above and owning 100% of ADG, compared to owning 55% in 2020 year-to-date.

QUARTERLY INFORMATION

In thousands of US dollars			Earnings per share	
Quarter Ended	Net Sales	Profit	Basic	Diluted
2021				
June 30, 2021	**118,449**	**18,320**	**0.68**	**0.65**
March 31, 2021	107,329	6,319	0.23	0.22
2020				
December 31, 2020	132,180	15,902	0.61	0.59
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 $150 million. $15,764 was drawn against this facility at June 30, 2021.

During 2021 year-to-date cash of $10,669 was used by operations, (2020: $29,732 provided), $15,125 was used by investing activities (2020: $720), and $15,189 was used by financing activities (Q2 2020: $903 provided). Cash and cash equivalents decreased by $40,817 from $86,970 to $46,153, adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

Cash provided by operating activities decreased by $40,401 compared with 2020. The decrease was due to $38,176 more cash used for working capital needs, higher tax payments of $6,388 and lower non-cash expenses of $5,707, partially offset by higher profit of $9,469 and lower interest payments of $401.

Cash used for working capital for 2021 increased to $38,470 (2020: $294) as a result of the following factors:

- Cash used for accounts receivable was $18,331, primarily related to AirBoss Defense Group's delivery of FlexAir™ PAPR systems and nitrile gloves to HHS and increased sales at the Rubber Solutions Segment.
- Cash used for inventory was $16,576, 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 used for prepaid expenses was $9,147, primarily for shipping costs to deliver nitrile gloves for AirBoss Defense Group's HHS contract.
- Cash from accounts payable was $6,653 due to increased inventory purchases 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 2021 year-to-date, the following investments were made:

- ADG invested $953. Of this, $386 was invested in growth initiatives, $456 to replace or upgrade existing property, plant and equipment, and the balance in cost savings initiatives;
- Rubber Solutions invested $2,184. Of this, $1,242 was invested in growth initiatives, $676 to replace or upgrade existing property, plant and equipment and the balance in cost savings initiatives; and
- Engineered Products invested $4,606. Of this, $3,715 was invested in cost savings initiatives, $700 in growth initiatives and the balance to replace or upgrade existing property, plant and equipment.

Intangible Assets

During 2021 year-to-date, the Company invested $541 in intangible assets for financial reporting and productivity software.

Financing activities

The Company's current credit facility is comprised of a $150 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 million to $150 million. The Company will use the additional credit to fund upfront costs under the contract to provide nitrile patient examination gloves to HHS.

During 2021 year-to-date, the Company made debt payments of $11,875 made up of $1,875 (2020 year -to-date: $1,875) for principal repayments related to the term loan under the credit facility and $10,000 under the purchase agreement to acquire the non-controlling interest in ADG. In addition, the Company paid $1,050 (2020: $863) of principal payments for its lease obligations.

The Company paid dividends of $3,013 during the 2021 year-to-date (2020: $2,415).

Government assistance

On May 1, 2020, the Company received a $6,422 loan pursuant to the Paycheck Protection Program under Division A, Title I of the CARES Act, to fund certain payroll and business expenses of the Company's Michigan and North Carolina operations. This loan bore interest at 1.0% and was scheduled to mature on May 1, 2022. On June 30, 2021, the loan and accrued interest was forgiven and the Company recorded a reduction to cost of sales and operating expenses of $5,560 and $936, respectively, in the consolidated statement of profit.

The Government of Canada 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 in the consolidated statement of profit.

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 $193 (2020: $325) were recognized in the quarter and research and development costs were reduced accordingly; year-to-date $488 (2020: $458).

Dividends

A quarterly dividend of CAD $0.10 per share was declared on May 12, 2021 and paid on July 15, 2021. Total annual dividends declared during 2020 were CAD $0.28 per common share.

Outstanding shares

As at August 10, 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; year-to-date $90 (2020: $90).

During the quarter, the Company paid fees for the use of a facility in South Carolina of approximately $7 (2020: $7) to a company in which the Chairman is an officer; year-to-date $15 (2020: $16).

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 June 30, 2021, the loan receivables of $722, including accrued interest, were included in Other Assets on the statement of financial position. During the quarter, interest revenue of $2 (2020: $6) was received; year-to-date $5 (2020: $10).

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 June 30, 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 June 30, 2021, the Company had contracts to sell USD $21,326 from July 2021 to April 2022 for Canadian dollars ("CAD") $26,400. The fair value of these contracts, representing an unrealized loss of $27, are included in trade and other payables, including derivatives on the statement of financial position. For the quarter ended June 30, 2021, the unrealized changes in fair value, representing a loss of $52 (2020: gain of $804), are recorded on the statement of profit as other income (expense); year-to-date $388 (2020: gain of $707).

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 ($27,188 as at June 30, 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 June 30, 2021, interest expense on the swap agreement was $11 (2020: 75); year-to-date $20 (2020: $75).

At June 30, 2021, the fair value of this agreement, representing a loss of $33, is included in loans and borrowings on the statement of financial position. For the quarter ended June 30, 2021, the change in the fair value, representing a gain of $3 (2020: $62) is recorded on the statement of profit as finance costs; year-to-date $24 (2020: loss of $171).

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.

August 10, 2021

Gren Schoch
Chairman and Chief Executive Officer

Frank Ientile
Chief Financial Officer

Interim Condensed Consolidated Statement of Financial Position

Unaudited

In thousands of US dollars	*Note*	**June 30, 2021**	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		**46,153**	86,970
Trade and other receivables, including derivatives	*6, 10*	**86,237**	68,602
Prepaid expenses		**15,692**	6,176
Inventories	*7*	**62,178**	45,525
Current income taxes receivable	*14*	**4,197**	1,452
Total current assets		**214,457**	208,725
Non-current assets			
Property, plant and equipment		**87,288**	81,254
Intangible assets	*4, 5*	**88,060**	71,774
Deferred income tax assets	*14*	**2,120**	3,973
Other assets	*8*	**1,168**	1,643
Total non-current assets		**178,636**	158,644
Total assets		**393,093**	367,369
LIABILITIES			
Current liabilities			
Loans and borrowings	*9, 15*	**10,938**	27,083
Trade and other payables, including derivatives	*10*	**82,287**	74,295
Provisions	*11*	**903**	573
Current income taxes payable	*14*	**—**	747
Total current liabilities		**94,128**	102,698
Non-current liabilities			
Loans and borrowings	*9*	**65,113**	63,651
Employee benefits	*16*	**671**	664
Provisions	*11*	**14,097**	2,058
Deferred income tax liabilities	*14*	**2,366**	3,710
Total non-current liabilities		**82,247**	70,083
Total liabilities		**176,375**	172,781
EQUITY			
Share capital	*12*	**88,013**	87,060
Contributed surplus	*12*	**1,834**	1,578
Retained earnings		**126,871**	105,950
Total equity		**216,718**	194,588
Total liabilities and equity		**393,093**	367,369

The notes on pages 16 to 27 are an integral part of these interim condensed consolidated financial statements.

On behalf of the Board

P.G. Schoch
Director

Robert L. McLeish
Director

Interim Condensed Consolidated Statement of Profit and Comprehensive Income
Unaudited

For the three- and six-month periods ended June 30 *In thousands of US dollars*	*Note*	**Three-month** **2021**	 2020	**Six-Month** **2021**	 2020
Net Sales		**118,449**	112,450	**225,778**	206,647
Cost of sales	*15*	**(85,146)**	(80,977)	**(166,700)**	(156,693)
Gross profit		**33,303**	31,473	**59,078**	49,954
General and administrative expenses	*15*	**(9,597)**	(8,402)	**(22,805)**	(20,144)
Selling and marketing expenses		**(2,992)**	(1,460)	**(5,108)**	(2,909)
Research and development expenses		**(795)**	(620)	**(1,602)**	(1,038)
Other income (expenses)		**165**	626	**248**	(1,046)
		(13,219)	(9,856)	**(29,267)**	(25,137)
Results from operating activities		**20,084**	21,617	**29,811**	24,817
Finance costs	*9, 10*	**(1,134)**	(802)	**(1,681)**	(1,971)
Profit before income tax		**18,950**	20,815	**28,130**	22,846
Income tax expense	*14*	**(630)**	(6,432)	**(3,491)**	(7,676)
Profit and total comprehensive income for the period		**18,320**	14,383	**24,639**	15,170
Profit attributable to:					
Owners of the Company		**18,320**	6,675	**24,639**	6,155
Non-controlling interest		**—**	7,708	**—**	9,015
		18,320	14,383	**24,639**	15,170
Earnings per share:					
Basic	*13*	**0.68**	0.29	**0.91**	0.26
Diluted	*13*	**0.65**	0.27	**0.87**	0.26

The notes on pages 16 to 27 are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Changes in Equity

Unaudited

In thousands of US dollars	Note	Share Capital	Contributed Surplus	Retained Earnings	Total	Non-controlling interest	Total equity
		Attributable to equity holders of the Company					
Balance at January 1, 2020		39,579	1,262	85,138	125,979	—	125,979
Total comprehensive income for the period		—	—	6,155	6,155	9,015	15,170
Contributions by and distributions							
Stock options expensed		—	170	—	170	—	170
Stock options exercised		4	(8)	—	(4)	—	(4)
Stock options forfeited		—	(269)	—	(269)	—	(269)
Acquisition and partial sale of subsidiaries	5	—	13,655	—	13,655	23,538	37,193
Shares issued for director compensation		68	—	—	68	—	68
Dividends to equity holders		—	—	(2,408)	(2,408)	—	(2,408)
Total contributions by and distributions		72	13,548	(2,408)	11,212	23,538	34,750
Balance at June 30, 2020		39,651	14,810	88,885	143,346	32,553	175,899
Balance at January 1, 2021		87,060	1,578	105,950	194,588	—	194,588
Total comprehensive income for the period		—	—	24,639	24,639	—	24,639
Contributions by and distributions							
Stock options expensed		—	465	—	465	—	465
Stock options exercised		953	(209)	—	744	—	744
Dividends to equity holders		—	—	(3,718)	(3,718)	—	(3,718)
Total contributions by and distributions		953	256	(3,718)	(2,509)	—	(2,509)
Balance at June 30, 2021		88,013	1,834	126,871	216,718	—	216,718

The notes on pages 16 to 27 are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Cash Flows

Unaudited

For the six-month period ended June 30 In thousands of US dollars	*Note*	**2021**	2020
Cash flows from operating activities			
Profit for the six-month period ended June 30		**24,639**	15,170
Adjustments for:			
Depreciation		**6,426**	5,498
Amortization of intangible assets		**3,067**	2,750
Finance costs	*9, 10*	**1,681**	1,971
Government assistance loan forgiveness	*15*	**(6,496)**	—
Unrealized foreign exchange losses		**756**	459
Share-based payment expense	*11, 12*	**4,730**	909
SRED tax credits		**(488)**	(458)
Income tax expense	*14*	**3,491**	7,676
Other		**(83)**	(14)
		37,723	33,961
Change in inventories		**(16,576)**	(9,812)
Change in trade and other receivables		**(18,331)**	3,859
Change in prepaid expenses		**(9,147)**	(3,961)
Change in trade and other payables		**6,653**	9,670
Change in provisions	*11*	**(1,069)**	(50)
Net change in non-cash working capital balances		**(38,470)**	(294)
Interest paid		**(1,132)**	(1,533)
Income tax paid		**(8,790)**	(2,402)
Net cash provided by (used in) operating activities		**(10,669)**	29,732
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(7,743)**	(5,109)
Acquisition of intangible assets		**(541)**	(609)
Proceeds from government grant		**—**	500
Proceeds from asset disposals		**6**	—
Cash paid to acquire subsidiary	*4*	**(7,615)**	—
Cash acquired on acquisition of subsidiary	*4, 5*	**768**	4,498
Net cash used in investing activities		**(15,125)**	(720)
Cash flows from financing activities			
Repayment of borrowings		**(11,875)**	(1,875)
Principal payments for lease liabilities		**(1,050)**	(863)
Proceeds from government loan	*15*	**—**	6,432
Payment of debt refinancing fees		**—**	(634)
Repayment (issuance) of share purchase loans	*8, 18*	**—**	248
Exercise of options (net of withholding taxes)		**744**	—
Interest received on share purchase loans	*8, 18*	**5**	10
Dividends paid	*12*	**(3,013)**	(2,415)
Net cash provided by (used in) financing activities		**(15,189)**	903
Net change in cash and cash equivalents		**(40,983)**	29,915
Cash and cash equivalents at January 1		**86,970**	121
Effect of exchange rate fluctuations on cash held		**166**	109
Cash and cash equivalents at June 30		**46,153**	30,145

The notes on pages 16 to 27 are an integral part of these interim condensed consolidated financial statements.

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

For the six-month periods ended June 30, 2021 and June 30, 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 and cross-traded on the OTCQX® Best Market in the United States, incorporated and domiciled in Ontario. Its registered office is located at 16441 Yonge Street, Newmarket, Ontario, Canada. AirBoss of America Corp. and its subsidiaries are together referred to, in these interim condensed consolidated financial statements, as the "Company” or "AirBoss". The Company has operations in Canada and the US and is involved primarily in the manufacture of high-quality rubber-based products to resource, military, automotive and industrial markets (see Note 17).

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%*)
Blackbox Biometrics, Inc. ("B3")	New York	100% (2.5%)

* See Note 5, 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 August 10, 2021.

NOTE 3 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.

NOTE 4 ACQUISITION OF BLACKBOX BIOMETRICS, INC.

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

Acquisition-related costs

The Company incurred acquisition-related costs of $154 on professional fees and due diligence costs that were included in “general and administrative expenses” in 2021.

Consideration transferred

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

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

Identifiable assets acquired and liabilities assumed

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

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

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

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

Goodwill

Goodwill arising from the acquisition has been recognized as follows.

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

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

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

NOTE 5 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. During the quarter the Company recorded nil expenses (2020: $35); year-to-date: nil (2020: $2,328).

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 6 TRADE AND OTHER RECEIVABLES

In thousands of US dollars	**June 30, 2021**	December 31, 2020
Trade receivables	**84,895**	66,692
Less: expected credit loss	**(571)**	(750)
	84,324	65,942
Other receivables	**1,913**	2,660
	86,237	68,602

Impairment losses

The aging of trade receivables at the reporting date was:

	June 30, 2021		December 31, 2020	
In thousands of US dollars	**Gross**	**Impairment**	Gross	Impairment
Within terms	**70,872**	**—**	49,544	—
Past due 0-30 days	**9,754**	**—**	12,621	—
Past due 31-120 days	**4,269**	**(571)**	4,527	(750)
	84,895	**(571)**	66,692	(750)

The continuity of the allowance for doubtful accounts was:

In thousands of US dollars	**June 30, 2021**	December 31, 2020
Balance at January 1	**(750)**	(481)
Written-off	**36**	—
Impairment loss recognized	**(122)**	(755)
Collected	**265**	486
Balance	**(571)**	(750)

NOTE 7 INVENTORIES

In thousands of US dollars	**June 30, 2021**	December 31, 2020
Raw materials and consumables	**42,679**	33,147
Work in progress	**4,925**	3,743
Finished goods	**24,753**	14,229
Inventory in transit	**493**	863
	72,850	51,982
Provisions	**(10,672)**	(6,457)
	62,178	45,525

An inventory charge of $4,215 (2020: charge of $1,080) was included in cost of sales for the increase in provisions.

NOTE 8 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
Investment eliminated upon acquiring control of B3 (note 4)	—	(493)	(493)
Accrued interest	4	—	4
Interest received	(5)	—	(5)
Effect of movements in exchange rates	19	—	19
Balance at June 30, 2021	722	446	1,168

NOTE 9 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 million to $150 million.

During the second quarter of 2021, interest expense on the term debt was $227 (2020: $374), excluding gains and losses related to its interest rate swap agreement; year-to-date $512 (2020: $878).

NOTE 10 DERIVATIVES NOT DESIGNATED IN A FORMAL HEDGE RELATIONSHIP

Foreign exchange hedge

At June 30, 2021, the Company had contracts to sell USD $21,326 from July 2021 to April 2022 for Canadian dollars ("CAD") $26,400. The fair value of these contracts, representing an unrealized loss of $27, are included in trade and other payables, including derivatives on the statement of financial position. For the quarter ended June 30, 2021, the unrealized changes in fair value, representing a loss of $52 (2020: gain of $804), are recorded on the statement of profit as other income (expense); year-to-date $388 (2020: gain of $707).

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 ($27,188 as at June 30, 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 June 30, 2021, interest expense on the swap agreement was $11 (2020: 75); year-to-date $20 (2020: $75).

At June 30, 2021, the fair value of this agreement, representing a loss of $33, is included in loans and borrowings on the statement of financial position. For the quarter ended June 30, 2021, the change in the fair value, representing a gain of $3 (2020: $62) is recorded on the statement of profit as finance costs; year-to-date $24 (2020: loss of $171).

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 11 PROVISIONS

In thousands of US dollars	Site restoration	PSUs and DSUs	Royalty payable	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 accrued during the period	—	4,265	—	4,265
Payments during the year	—	(1,069)	—	(1,069)
Issued to acquire B3 (note 4)	—	—	9,008	9,008
Foreign exchange	5	160	—	165
Balance at June 30, 2021	79	5,913	9,008	15,000
Less: current portion due within one year	—	(437)	(466)	(903)
Non-current balance at June 30, 2021	79	5,476	8,542	14,097

No legal provisions are recognized at June 30, 2021 and December 31, 2020.

Performance Stock Units ("PSUs")

The Company has issued certain executives with an aggregate of 230,317 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	**June 30, 2021**	December 31, 2020	June 30, 2020
January 1	**201,210**	83,998	83,998
New issuances	**54,350**	191,233	183,619
Forfeitures	**—**	(46,906)	(41,882)
Settlements	**(25,243)**	(27,115)	(27,115)
Balance	**230,317**	201,210	198,620

During the quarter the Company recognized costs of $594 (2020: $252) related to the plan; year-to-date $2,515 (2020: $235).

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	**June 30, 2021**	December 31, 2020	June 30, 2020
January 1	**97,060**	72,672	72,672
New issuances	**9,460**	31,976	22,484
Settlements	**—**	(7,588)	(7,588)
Balance	**106,520**	97,060	87,568

At June 30, 2021, independent directors held 106,520 DSUs. During the quarter the Company recognized cost recoveries of $318 (2020: cost of $766) related to DSUs issued under the Omnibus Plan; year-to-date cost of $1,750 (2020: $778).

NOTE 12 CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital and Contributed Surplus

Issued share capital is as follows:

In thousands of shares	**June 30, 2021**	December 31, 2020	June 30, 2020
January 1	**26,909**	23,392	23,392
Issued to acquire subsidiary	**—**	3,500	—
Exercise of stock options	**76**	9	1
Exercise of deferred share units	**—**	8	8
Balance	**26,985**	26,909	23,401

Capital and other components of equity

Contributed surplus

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

Stock options outstanding as at June 30

In thousands of options	**2021**	2020
Stock options granted and outstanding	**1,695**	1,656

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 $377 (2020: recoveries of $128) relating to option grants in general and administrative expenses of the statement of profit; year-to-date $465 (2020: recoveries of $104).

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
June 30	**0.10**	**July 15, 2021**	0.07	July 15, 2020
March 31	**0.07**	**April 15, 2021**	0.07	April 15, 2020

The dividend payable at June 30, 2021 was $2,177 (June 30, 2020: $1,201).

NOTE 13 EARNINGS PER SHARE

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

For the three- and six-month periods ended June 30	Three-month		Six-Month	
In thousands of US dollars, except share amounts outstanding, per share amounts in US dollars	**2021**	2020	**2021**	2020
Numerator for basic and diluted earnings per share: Net income	**18,320**	6,675	**24,639**	6,155
Denominator for basic and diluted earnings per share:				
Basic weighted average number of shares outstanding	**26,985**	23,399	**26,953**	23,396
Dilution effect of stock options	**1,286**	945	**1,221**	488
Dilution of effect of deferred stock units	**103**	83	**95**	78
Diluted weighted average number of shares outstanding	**28,374**	24,427	**28,269**	23,962
Net income per share: Basic	**0.68**	0.29	**0.91**	0.26
Diluted	**0.65**	0.27	**0.87**	0.26

For the quarter ended June 30, 2021, nil options (2020: 81,370) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive; year-to-date nil options (2020: 98,933).

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 14 INCOME TAXES

	Three-month		Six-Month	
For the three- and six-month periods ended June 30 *In thousands of US dollars*	**2021**	2020	**2021**	2020
Current tax expense:				
Current period	**1,760**	6,394	**5,889**	7,619
Adjustment for prior period(s)	**(30)**	81	**(30)**	(106)
	1,730	6,475	**5,859**	7,513
Deferred tax expense:				
Origination and reversal of temporary differences	**(1,109)**	(66)	**(2,377)**	140
Adjustment for prior period(s)	**9**	23	**9**	23
	(1,100)	(43)	**(2,368)**	163
Total income tax expense	**630**	6,432	**3,491**	7,676

NOTE 15 GOVERNMENT ASSISTANCE

On May 1, 2020, the Company received a $6,422 loan pursuant to the Paycheck Protection Program under Division A, Title I of the CARES Act, to fund certain payroll and business expenses of the Company's Michigan and North Carolina operations. This loan bore interest at 1.0% and was scheduled to mature on May 1, 2022. On June 30, 2021, the loan and accrued interest was forgiven and the Company recorded a reduction to cost of sales and operating expenses of $5,560 and $936, respectively, in the consolidated statement of profit.

The Government of Canada 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 $769 and $226, respectively, in the consolidated statement of profit (2020: $3,829 and $848); year-to-date $2,380 and $569 (2020: $3,829 and $848).

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 $193 (2020: $325) were recognized in the quarter and research and development costs were reduced accordingly; year-to-date $488 (2020: $458).

NOTE 16 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 $126 (2020: $306); year-to-date $325 (2020: $389).

ANC maintains a 401(k) plan for its employees. Total expenses for this plan during the period were $34 (2020: $36); year-to-date $67 (2020: $55).

AFP maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were $129 (2020: $35); year-to-date $246 (2020: $143).

ADG USA maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were $41 (2020: $28); year-to-date $82 (2020: $54).

ADG Canada employees are covered under various registered and unregistered defined contribution plans. Total expenses for these plans during the period were $48 (2020: $35); year-to-date $104 (2020: $110).

CSI maintains a 401(k) defined contribution plan for its employees. Total expenses for this plan during the period were $43 (2020: $64); year-to-date $64 (2020: $171).

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 $69 (2020: $24) to the multi-employer pension plan; year-to-date $142 (2020: $95). 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 17 SEGMENTED INFORMATION

The Company has the following reportable segments:

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

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before finance costs and income tax, as included in the internal management reports that are reviewed by the Company's CEO/Chairman and President. 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 June 30	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	**56,785**	82,020	**41,860**	23,351	**27,627**	13,517	**—**	—	**126,272**	118,888
Inter-segment net sales	**(1,320)**	(1,257)	**(4,809)**	(2,333)	**(1,694)**	(2,848)	**—**	—	**(7,823)**	(6,438)
External net sales	**55,465**	80,763	**37,051**	21,018	**25,933**	10,669	**—**	—	**118,449**	112,450
Depreciation, amortization, and impairment	**2,369**	1,992	**1,079**	702	**1,321**	1,248	**61**	71	**4,830**	4,013
Segment measure of profit (loss)	**17,614**	23,807	**3,686**	2,791	**618**	(3,520)	**(1,834)**	(1,461)	**20,084**	21,617
Finance costs									**1,134**	802
Income tax expense									**630**	6,432
Profit									**18,320**	14,383
Segment assets[1]	**189,725**	198,450	**99,510**	82,150	**83,215**	75,597	**20,643**	11,172	**393,093**	367,369
Segment liabilities[1]	**53,788**	42,396	**26,840**	25,856	**23,987**	22,788	**71,760**	81,741	**176,375**	172,781
Capital additions	**584**	961	**1,267**	601	**1,014**	1,567	**190**	247	**3,055**	3,376

Notes to CFS (cont'd)

Information about reportable segments six-months ended June 30	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	**101,847**	117,079	**79,076**	57,605	**59,984**	43,579	**—**	—	**240,907**	218,263
Inter-segment sales	**(2,566)**	(2,169)	**(9,753)**	(6,599)	**(2,810)**	(2,848)	**—**	—	**(15,129)**	(11,616)
External net sales	**99,281**	114,910	**69,323**	51,006	**57,174**	40,731	**—**	—	**225,778**	206,647
Depreciation, amortization, and impairment	**4,542**	4,176	**2,169**	1,455	**2,661**	2,474	**121**	143	**9,493**	8,248
Segment measure of profit (loss)	**32,542**	28,888	**6,663**	6,565	**(2,347)**	(4,561)	**(7,047)**	(6,075)	**29,811**	24,817
Finance costs									**1,681**	1,971
Income tax expense									**3,491**	7,676
Profit									**24,639**	15,170
Reportable segment assets[1]	**189,725**	198,450	**99,510**	82,150	**83,215**	75,597	**20,643**	11,172	**393,093**	367,369
Reportable segment liabilities[1]	**53,788**	42,396	**26,840**	25,856	**23,987**	22,788	**71,760**	81,741	**176,375**	172,781
Capital additions	**5,467**	1,625	**2,184**	1,495	**4,623**	2,383	**562**	514	**12,836**	6,017

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

Geographical segments

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

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

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

	Net Sales		Net Sales		Non-current assets		Non-current assets
	Three-months ended June 30		Six-months ended June 30		June 30		December 31
In thousands of US dollars	**2021**	2020	**2021**	2020	**2021**	2020	2020
Canada	**12,678**	16,830	**23,231**	35,584	**60,450**	46,004	45,357
United States	**94,591**	91,733	**176,443**	159,923	**118,186**	112,070	113,287
Other countries	**11,180**	3,887	**26,104**	11,140	**—**	—	—
	118,449	112,450	**225,778**	206,647	**178,636**	158,074	158,644

Major customers

Net sales from one customer represented approximately 24.9% (2020: 26.9%) of the Company's total net sales. Five customers represented 43.3% (2020: 47.1%) of the Company's total net sales.

Major products

	Three-months ended June 30		Six-months ended June 30	
In thousands of US dollars	**2021**	2020	**2021**	2020
AirBoss Defense Group				
Defense	**47,802**	75,241	**84,156**	102,649
Industrial	**7,663**	5,522	**15,125**	12,261
	55,465	80,763	**99,281**	114,910
Rubber Solutions				
Tolling	**1,970**	614	**4,643**	3,379
Mixing	**35,081**	20,404	**64,680**	47,627
	37,051	21,018	**69,323**	51,006
Engineered Products	**25,933**	10,669	**57,174**	40,731
Total	**118,449**	112,450	**225,778**	206,647

NOTE 18 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; year-to-date $90 (2020: $90).

During the quarter, the Company paid fees for the use of a facility in South Carolina of approximately $7 (2020: $7) to a company in which the Chairman is an officer; year-to-date $15 (2020: $16).

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 June 30, 2021, the loan receivables of $722, including accrued interest, were included in Other Assets on the statement of financial position. During the quarter, interest revenue of $2 (2020: $6) was received; year-to-date $5 (2020: $10).

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