AirBoss of America Corp.

AIRBOSS OF AMERICA CORP.
2022 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 11, 2022 and should be read in conjunction with the Unaudited Interim Condensed Consolidated Financial Statements and Notes for the three-month period ended March 31, 2022 and the MD&A and Audited Consolidated Financial Statements and Notes for the year ended December 31, 2021. 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 $250,000. 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)

- Grew diluted EPS by 54.5% to $0.34 for the three-month period ended March 31, 2022 ("Q1 2022") vs. $0.22 in the three-month period ended March 31, 2021 ("Q1 2021");
- Q1 2022 Net Debt to EBITDA ratio was 1.11x;
- Declared a quarterly dividend of C$0.10 per common share;
- Commenced the commercialization of the new AirBoss 100™ Half Mask Respirator; and
- Completed deliveries of nitrile patient examination gloves under the previously announced order for the Strategic National Stockpile ("SNS") for the U.S. Department for Health and Human Services ("HHS") – Office of the Assistant Secretary for Preparedness and Response ("ASPR"), the largest AirBoss business award on record, delivering US$237 million of the US$288 million of gloves originally contracted for. This contract has now been completed.

Selected Financial Information

Three-months ended March 31
In thousands of US dollars, except share data

(unaudited)	**2022**	2021
Financial results:		
Net sales	**144,473**	107,329
Profit	**9,576**	6,319
Earnings per share (US$)		
– Basic	**0.35**	0.23
– Diluted	**0.34**	0.22
EBITDA[1]	**19,695**	14,390
Net cash provided by (used in) operating activities	**(32,686)**	(3,976)
Free cash flow[1]	**(34,827)**	(9,222)
Dividends declared per share (CAD$)	**0.10**	0.07
Capital additions	**2,141**	9,781
Financial position:	**March 31, 2022**	December 31, 2021
Total assets	**498,758**	443,264
Debt[2]	**124,659**	80,563
Net Debt[1]	**94,203**	56,033
Shareholders' equity	**242,580**	235,148
Outstanding shares*	**27,092,041**	26,993,181
**27,092,041 at May 11, 2022*		

[1] See Non-IFRS and Other Financial Measures
[2] Debt as at March 31, 2022 and December 31, 2021 include lease liabilities of $16,846 and $17,399, respectively.

NON-IFRS AND OTHER FINANCIAL MEASURES

This MD&A is based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and Non-IFRS and Other Financial Measures. Management believes that these measures provide useful information to investors in measuring the financial performance of the Company. These measures do not have a standardized meaning prescribed by IFRS and therefore they may not be comparable to similarly titled measures presented by other companies and should not be construed as an alternative to other financial measures determined in accordance with IFRS. These terms are not measures of performance under IFRS and should not be considered in isolation or as a substitute for net income under IFRS.

EBITDA is a non-IFRS measures used to measure the Company's ability to generate cash from operations for debt service, to finance working capital and capital expenditures, potential acquisitions and to pay dividends. EBITDA is defined as earnings before income taxes, finance costs, depreciation, amortization, and impairment costs. A reconciliation of Profit to EBITDA is below.

Three-months ended March 31	(unaudited)	
In thousands of US dollars	**2022**	2021
EBITDA:		
Profit	**9,576**	6,319
Finance costs	**952**	547
Depreciation, amortization and impairment	**5,497**	4,663
Income tax expense	**3,670**	2,861
EBITDA	**19,695**	14,390

Net Debt measures the financial indebtedness of the Company assuming that all cash on hand is used to repay a portion of the outstanding debt. A reconciliation of loans and borrowings to Net Debt is below.

In thousands of US dollars	**March 31, 2022** (unaudited)	December 31, 2021
Net debt:		
Loans and borrowings - current	**2,143**	2,356
Loans and borrowings - non-current	**122,516**	78,207
Leases included in loans and borrowings	**(16,846)**	(17,399)
Cash and cash equivalents	**(13,610)**	(7,131)
Net debt	**94,203**	56,033

Free cash flow is a non-IFRS measure used to evaluate cash flow after investing in the maintenance or expansion of the Company's business. It is defined as cash provided by operating activities, less cash expenditures on long-term assets. A reconciliation of cash from operating activities to free cash flow is below.

Three-months ended March 31	(unaudited)	
In thousands of US dollars	**2022**	2021
Free cash flow:		
Net cash provided by (used in) operating activities	**(32,686)**	(3,976)
Acquisition of property, plant and equipment	**(1,834)**	(4,873)
Acquisition of intangible assets	**(307)**	(373)
Free cash flow	**(34,827)**	(9,222)
Basic weighted average number of shares outstanding	**27,005**	26,921
Diluted weighted average number of shares outstanding	**27,005**	26,921
Free cash flow per share (in US dollars):		
Basic	**(1.29)**	(0.34)
Diluted	**(1.29)**	(0.34)

OVERVIEW

This was a strong quarter for AirBoss. The Company integrated the operations of Ace Elastomer and BlackBox Biometrics and continued building momentum from 2021 with a concentrated focus on operational execution and growth initiatives while navigating on-going global challenges including freight, labor and logistics issues, raw material price escalations and constraints, other supply chain interruptions and continued shutdowns due to COVID-19 and the conflict in the Ukraine. ADG completed delivery of a significant portion of the nitrile patient examination glove order for the Strategic National Stockpile for

HHS – Office of the Assistant Secretary for Preparedness and Response (ASPR). Execution under this contract, which is now complete, provided a strong financial backdrop to offset raw material, logistics and labor challenges faced by the Rubber Solutions and Engineered Products segments, though Rubber Solutions did commence a strong recovery towards the end of the quarter. AirBoss has continued to focus on its core segments despite the challenges outlined above, 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 locations. The Company remains well positioned for continued future growth, including a record pipeline of over $1.5 billion, the largest in its history.

The Company continued to take the necessary risk mitigation steps within its supply chain, to strive to reduce potential impacts to its business and that of customers, by identifying alternative raw material sources both domestically and internationally. The continued recovery of volumes previously impacted by global challenges including COVID-19, will be subject, in part, to the ongoing management of stable and sustained operations of businesses globally, which continues to be difficult to predict, especially in light of the new and ongoing challenges noted above. Material availability and significant raw material price increases, as well as increasing demand outpacing traditional supply models, has forced AirBoss to focus on a combination of domestic sourcing, advanced buying tactics and the development of alternative sources. However, we anticipate further constraints on our supply chain for the foreseeable future in 2022. Notwithstanding these challenges, the Company continues to believe that it is poised for continued success during the remainder of the year.

ADG continues to work on the significant opportunities in its sales pipeline, which is at a record level. Management believes that the future sourcing of PPE for first responders and healthcare professionals will continue to be a necessity and priority for front line workers, evidenced by the strong pipeline of PPE-related opportunities that ADG is currently pursuing. Management expects a more unified and streamlined approach to PPE acquisition aimed at building strategic stockpiles and an increased focus on domestic contracting and production as part of overall future emergency preparedness planning. ADG has accordingly focused its strategy on the development of domestic supply chains in order to capitalize on this trend.

ADG has now also commenced the commercialization of the new AirBoss 100™ Half Mask Respirator across its network, following the previously announced receipt of NIOSH approval for this product. Beyond this, ADG continues to target traditional defense contracts for its broader portfolio of survivability solutions, especially given the current conflict unfolding in the Ukraine.

The Rubber Solutions segment saw sustained demand that exceeded volumes for the same quarter in 2021 with a healthy backlog, supported by the successful implementation of the bulk material handling and delivery system in Scotland Neck, North Carolina. The continued focus on integrating operational excellence supported by Ace Elastomer's line of specialized products expanded production of a broader array of compounded products (white and color), as well as providing enhanced flexibility in attracting and fulfilling new business through identified synergies. This was further enhanced as development and sales in colored rubber continued to grow in line with the margin expansion strategy with new customers. The Company also continued to make inroads in utilization of its "tilt" mixer, which is expected to support the production of increasingly specialized, higher margin compounds, further diversifying AirBoss' offering and enhancing penetration with both existing and new customers.

The Engineered Products segment continued to be impacted by record raw material increases, significant supply chain challenges and electronic chip shortages as OEMs flex production, with vehicle inventories remaining at historically low levels while demand remains strong. Management remains committed to continuing to address key challenges in the anti-vibration business including margin improvement with targeted cost management, enhanced pricing strategies with raw material indexing and investments in advanced manufacturing. The segment also continued to focus on its operational improvement plan including managing variable costs and sustaining a stable hourly workforce while dealing with the volume reductions in the automotive sector, as well as its commitment to drive efficiencies and best-in-class automation, with significant investment in new injection presses and the addition of a second state of the art automated work cell which is now running at full capacity. The segment also continued its focus on diversification of its product lines into sectors adjacent to the automotive space.

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 new solutions for our customers as industry conditions improve. Our strategic priorities 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 accretive transactions.

RESULTS OF OPERATIONS - For the three-month period ended March 31, 2022 compared to 2021

NET SALES

Consolidated net sales for Q1 2022 increased by 34.6% to $144,473 compared with Q1 2021. The increases were primarily attributable to HHS nitrile patient examination glove contract deliveries, supported by a strong recovery in volumes at the Rubber Solutions segment and the benefit of 2021 acquisitions, partially offset by softer volumes at the Engineered Products segment.

Three-months ended March 31 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Inter-segment net sales	Total
Net Sales	**2022**	**63,962**	**56,707**	**29,840**	**(6,036)**	**144,473**
	2021	45,062	37,216	32,357	(7,306)	107,329
Increase (decrease) $		18,900	19,491	(2,517)	1,270	37,144
Increase (decrease) %		41.9	52.4	(7.8)	(17.4)	34.6

AirBoss Defense Group

Net sales in the AirBoss Defense Group segment for Q1 2022 increased by 41.9% to $63,962, from $45,062 in Q1 2021. The increase was primarily the result of deliveries under the large HHS nitrile patient examination glove contract further supported by improved volumes from industrial operations in Acton Vale.

Rubber Solutions

Net sales in the Rubber Solutions segment for Q1 2022 increased by 52.4% to $56,707, from $37,216 in Q1 2021. Volume was up 7.2% 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 down 2.0% while non-tolling was up 10.0%. 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.

Engineered Products

Net sales in the Engineered Products segment for Q1 2022 decreased by 7.8% to $29,840, from $32,357 in Q1 2021. The decrease was due to lower volumes in SUV, light truck and mini-van platforms related to the global electronic chip shortages combined with raw material shortages and freight and logistics bottlenecks, which continue to challenge production schedules across all OEMs and Tier 1 suppliers.

GROSS PROFIT

Consolidated gross profit for Q1 2022 increased by $5,826 to $31,601, compared with Q1 2021, driven by higher volumes at ADG related to HHS nitrile patient examination glove contract deliveries and higher volumes at Rubber Solutions, offset by lower volumes at Engineered Products and continued freight and raw material increases experienced across the organization. Gross profit as a percentage of net sales was reduced to 21.9% in Q1 2022 compared with 24.0% for Q1 2021 primarily due to a change in product mix at ADG, raw material, freight and labor related challenges impacting each segment to varying degrees and government-directed wage subsidies recognized in Q1 2021.

Three-months ended March 31 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Total
Gross Profit	**2022**	**27,671**	**8,008**	**(4,078)**	**31,601**
	2021	20,846	5,209	(280)	25,775
Increase (decrease) $		6,825	2,799	(3,798)	5,826
% of net sales	**2022**	**43.3**	**14.1**	**(13.7)**	**21.9**
	2021	46.3	14.0	(0.9)	24.0

AirBoss Defense Group

Gross profit at AirBoss Defense Group for Q1 2022 increased by 32.7% to $27,671 (43.3% of net sales), from $20,846 (46.3% of net sales) in Q1 2021. The increase was primarily the result of deliveries under the large HHS nitrile patient examination glove contract and favorable mix of certain other products, offset by the elimination of government-directed wage subsidies compared to Q1 2021.

Rubber Solutions

Gross profit at Rubber Solutions for Q1 2022 increased by 53.7% to $8,008 (14.1% of net sales) from $5,209 (14.0% of net sales) in Q1 2021. The increase was primarily the result of an improvement in non-tolling volumes and managing controllable overhead costs, partially offset by increased raw material, labor and logistics costs and the elimination of government-directed subsidies.

Engineered Products

Gross profit at the Engineered Products segment for Q1 2022 decreased to $(4,078) from $(280) in Q1 2021. This was primarily a result of lower volumes in part due to the global electronic chip shortages in the automotive sector combined with significant raw material shortages in addition to freight and logistics constraints partially offset by a continued focus on controllable operational cost containment.

OPERATING EXPENSES

Consolidated operating expenses for Q1 2022 increased by $1,355. The increase was primarily due to higher selling costs, the integration of the B3 and Ace, and the amortization of B3's and Ace's intangible assets, partially offset by cost recoveries from stock-based compensation, and no government-directed subsidies in the current quarter.

Three-months ended March 31 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	**2022**	**10,400**	**3,527**	**2,846**	**630**	**17,403**
	2021	5,918	2,232	2,685	5,213	16,048
Increase (decrease) $		4,482	1,295	161	(4,583)	1,355
% of net sales	**2022**	**16.3**	**6.2**	**9.5**	**N/A**	**12.0**
	2021	13.1	6.0	8.3	N/A	15.0

AirBoss Defense Group

AirBoss Defense Group's operating expenses for Q1 2022 increased by $4,482 to $10,400 primarily due to higher selling costs, the acquisition of B3, the amortization of B3's intangible assets, no government-directed wage subsidies in the current quarter and a foreign exchange loss.

Rubber Solutions

Rubber Solutions' operating expenses for Q1 2022 increased by $1,295 to $3,527. The change was primarily due to the acquisition of Ace, the amortization of Ace's intangible assets, no government-directed wage subsidies in the current quarter and a foreign exchange loss.

Engineered Products

Engineered Products' operating expenses for Q1 2022 increased by $161 to $2,846 due to higher R&D costs.

Unallocated Corporate Costs

Unallocated corporate costs for Q1 2022 decreased by $4,583 to $630. The decrease was primarily due to cost recoveries from stock-based compensation and a foreign exchange gain, partially offset by increased administration costs.

FINANCE COSTS

Finance costs for Q1 2022 were $952 (Q1 2021: $547). The increase was primarily due to an adjustment to the fair value of contingent consideration related to the acquisition of B3 and additional borrowings, partially offset by a mark-to-market gain on the interest rate swap.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $3,670 in Q1 2022 (Q1 2021: $2,861) for an effective income tax rate of 27.7% (31.2% in Q1 2021). The effective tax rate was lower in the current quarter primarily due to the benefit from temporary differences not recognized in the comparable quarter.

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 $9,576 for Q1 2022, compared with $6,319 for Q1 2021. The increase was primarily attributable to higher gross profit.

Basic and fully diluted net earnings per share in Q1 2022 were $0.35 and $0.34, respectively compared with $0.23 and $0.22, respectively, for Q1 2021. The increase in profitability is for the reasons noted above.

QUARTERLY INFORMATION

In thousands of US dollars			Earnings per share	
Quarter Ended	Net Sales	Profit	Basic	Diluted
2022				
March 31, 2022	**144,473**	**9,576**	**0.35**	**0.34**
2021				
December 31, 2021	249,053	15,162	0.56	0.53
September 30, 2021	112,027	6,902	0.26	0.24
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

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its remaining 2022 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 $250 million. $110,463 was drawn against this facility as at March 31, 2022 as a result of the continued funding of nitrile patient examination glove contract for HHS and to finance the acquisition of ACE.

During Q1 2022, cash of $32,686 was used by operations, (Q1 2021: $3,976), $2,141 was used by investing activities (2021: $5,240), and $41,375 was provided by financing activities (Q1 2021: $7,140 used). Cash and cash equivalents increased by $6,479 from $7,131 to $13,610, adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

Cash used by operating activities increased by $28,710 compared with 2021. The increase was primarily due to $24,942 more cash used for working capital needs, higher income tax payments of $2,510, and lower non-cash expenses of $3,993, partially offset by higher profit of $3,257.

Cash used for working capital for Q1 2022 increased to $45,818 (Q1 2021: $20,876) as a result of the following factors:

- Cash used for accounts receivable was $41,574, primarily related to AirBoss Defense Group's delivery of nitrile gloves to HHS, and increased sales at the Rubber Solutions and Engineered Products segments compared to the preceding quarter.
- Cash used for inventory was $8,129, primarily related to AirBoss Defense Group's contract to deliver nitrile gloves to HHS.
- Cash used for prepaid expenses was $757, primarily for deposits to acquire inventory.
- Cash from accounts payable was $4,642 due to increased inventory purchases and extending payment terms with suppliers.

Investing Activities

Property, Plant and Equipment

During Q1 2022, the following investments were made:

- ADG invested $593. $43 was invested in growth initiatives, and $551 to replace or upgrade existing property, plant and equipment;
- Rubber Solutions invested $834. $528 to replace or upgrade existing property, plant and equipment, and the balance in cost savings initiatives; and
- Engineered Products invested $407. $283 was invested in cost savings initiatives and the balance to upgrade existing property, plant and equipment.

Intangible Assets

During Q1 2022, the Company invested $307 in intangible assets for financial reporting and productivity software.

Financing activities

In September 2021, the Company updated its credit facilities to increase revolving credit availability to $250 million from $150 million with an accordion of $75 million (from $50 million) upon the satisfaction of customary conditions for such features. The new facility bears interest at LIBOR plus applicable margins from 145 to 250 basis points, depending on covenants, and matures on September 23, 2026. Proceeds from the new facility were used to repay the Company's term loan and fund upfront payments related to acquisition of finished goods and other inventories, related primarily to execution on existing contracts.

During 2022 year-to-date, the Company made debt payments of nil (2021: $5,938) for principal repayments related to the term loan under the credit facility. The Company paid $567 (2021: $470) of principal payments for its lease obligations.

The Company paid dividends of $2,122 during the 2022 year-to-date (2021: $1,479).

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 provided 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 interim condensed consolidated statement of profit and comprehensive income up to the period ended June 30, 2021.

Scientific research and investment tax credits of $204 (2021: $295) were recognized in the quarter and research and development costs were reduced accordingly.

Dividends

A quarterly dividend of CAD $0.10 per share was declared on March 8, 2022 and paid on April 15, 2022. Total annual dividends declared during 2021 were CAD $0.37 per common share.

Outstanding shares

As at May 11, 2022, the Company had 27,092,041 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

During the quarter, the Company paid $43 (2021: $44) to companies controlled by the Chairman of the Company for use of office facilities.

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 $2,473 were pledged as collateral on these loans. At March 31, 2021, the loan receivables of $715, including accrued interest, were included in Other Assets on the interim condensed consolidated statement of financial position. During the quarter, interest revenue of $3 (2021: $3) was received.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies in Note 3 to the annual consolidated financial statements for the year ended December 31, 2021, have been applied consistently to all periods presented in the interim condensed consolidated financial statements for the period ended March 31, 2022.

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, 2022, the Company had contracts to sell $20,466 from April 2022 to October 2022 for Canadian dollars ("CAD") $26,000. The fair values of these contracts, representing an unrealized gain of $342, are included in trade and other receivables, including derivatives on the interim condensed consolidated statement of financial position. For the quarter ended March 31, 2022, the unrealized changes in fair value, representing a gain of $395 (2021: loss of $336), are recorded on the interim condensed consolidated statement of profit and comprehensive income as other income (expense).

At December 31, 2021, the Company had contracts to sell $16,617 from January 2022 to September 2022 for CAD $21,000. The fair values of those contracts, representing an unrealized loss of $53 are included in trade and other payables, including derivatives on the interim condensed consolidated statement of financial position.

Interest rate swap

In December 2021, the Company entered into an interest rate swap agreement for a notional amount of $28,125 ($25,781 as at March 31, 2022) 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 2021 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, 2022, interest expense on the swap agreement was $9 (2021: $9).

At March 31, 2022, the fair value of this agreement, representing a gain of $243, is included in loans and borrowings on the interim condensed consolidated statement of financial position. For the quarter ended March 31, 2022, the change in the fair value, representing a gain of $195 (2021: gain of $21) is recorded on the interim condensed consolidated statement of profit and comprehensive income as finance costs.

At December 31, 2021, the fair value of this agreement, representing a gain of $48, was included in loans and borrowings on the interim condensed consolidated 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 borrowings and does not hold it for trading or speculative purposes.

May 11, 2022

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*	**March 31, 2022**	December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents	*4, 5*	**13,610**	7,131
Trade and other receivables, including derivatives	*6, 9*	**124,481**	82,440
Prepaid expenses		**10,800**	10,032
Inventories	*7*	**130,276**	122,147
Current income taxes receivable	*13*	**7,563**	6,136
Total current assets		**286,730**	227,886
Non-current assets			
Property, plant and equipment		**91,798**	93,148
Intangible assets	*4, 5*	**119,070**	121,075
Other assets		**1,160**	1,155
Total non-current assets		**212,028**	215,378
Total assets		**498,758**	443,264
LIABILITIES			
Current liabilities			
Loans and borrowings	*8*	**2,143**	2,356
Trade and other payables, including derivatives	*9*	**106,560**	103,026
Provisions	*10*	**8,123**	2,840
Total current liabilities		**116,826**	108,222
Non-current liabilities			
Loans and borrowings	*8*	**122,516**	78,207
Employee benefits	*15*	**582**	579
Provisions	*10*	**11,669**	17,511
Deferred income tax liabilities	*13*	**4,585**	3,597
Total non-current liabilities		**139,352**	99,894
Total liabilities		**256,178**	208,116
EQUITY			
Share capital	*11*	**87,811**	87,937
Contributed surplus	*11*	**2,671**	2,531
Retained earnings		**152,098**	144,680
Total equity		**242,580**	235,148
Total liabilities and equity		**498,758**	443,264

The notes on pages 14 to 23 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 periods ended March 31 *In thousands of US dollars, except per share amounts*	*Note*	**2022**	2021
Net Sales		**144,473**	107,329
Cost of sales	*14*	**(112,872)**	(81,554)
Gross profit		**31,601**	25,775
General and administrative expenses	*14*	**(11,635)**	(13,208)
Selling and marketing expenses		**(4,956)**	(2,116)
Research and development expenses		**(906)**	(807)
Other income (expenses)		**94**	83
		(17,403)	(16,048)
Results from operating activities		**14,198**	9,727
Finance costs	*8, 9*	**(952)**	(547)
Profit before income tax		**13,246**	9,180
Income tax expense	*13*	**(3,670)**	(2,861)
Profit and total comprehensive income for the period		**9,576**	6,319
Earnings per share:			
Basic	*12*	**0.35**	0.23
Diluted	*12*	**0.34**	0.22

The notes on pages 14 to 23 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	Share Capital	Contributed Surplus	Retained Earnings	Total equity
Balance at January 1, 2021	87,060	1,578	105,950	194,588
Total comprehensive income for the period	—	—	6,319	6,319
Contributions by and distributions				
Stock options expensed	—	88	—	88
Stock options exercised	953	(209)	—	744
Dividends to equity holders	—	—	(1,488)	(1,488)
Total contributions by and distributions	953	(121)	(1,488)	(656)
Balance at March 31, 2021	88,013	1,457	110,781	200,251
Balance at January 1, 2022	87,937	2,531	144,680	235,148
Total comprehensive income for the period	—	—	9,576	9,576
Contributions by and distributions				
Stock options expensed	—	212	—	212
Stock options exercised	(622)	(72)	—	(694)
Shares issued	496	—	—	496
Dividends to equity holders	—	—	(2,158)	(2,158)
Total contributions by and distributions	(126)	140	(2,158)	(2,144)
Balance at March 31, 2022	87,811	2,671	152,098	242,580

The notes on pages 14 to 23 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*	**2022**	2021
Cash flows from operating activities			
Profit for the three-month period ended March 31		**9,576**	6,319
Adjustments for:			
Depreciation		**3,214**	3,083
Amortization of intangible assets		**2,283**	1,580
Finance costs	*8, 9*	**952**	547
Unrealized foreign exchange (gains) losses		**(541)**	572
Share-based payment (recovery) expense	*10, 11*	**(944)**	4,076
SRED tax credits		**(204)**	(295)
Income tax expense	*13*	**3,670**	2,861
Other		**(8)**	(9)
		17,998	18,734
Change in inventories		**(8,129)**	(6,375)
Change in trade and other receivables		**(41,574)**	(15,480)
Change in prepaid expenses		**(757)**	498
Change in trade and other payables		**4,642**	1,550
Change in provisions	*10*	**—**	(1,069)
Net change in non-cash working capital balances		**(45,818)**	(20,876)
Interest paid		**(996)**	(474)
Income tax paid		**(3,870)**	(1,360)
Net cash provided by (used in) operating activities		**(32,686)**	(3,976)
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(1,834)**	(4,873)
Acquisition of intangible assets		**(307)**	(373)
Proceeds from asset disposals		**—**	6
Net cash used in investing activities		**(2,141)**	(5,240)
Cash flows from financing activities			
Repayment of borrowings	*8*	**—**	(5,938)
Proceeds from operating line of credit	*8*	**44,750**	—
Principal payments for lease liabilities		**(567)**	(470)
Exercise of options (net of withholding taxes)		**(693)**	744
Interest received on share purchase loans	*17*	**7**	3
Dividends paid	*11*	**(2,122)**	(1,479)
Net cash provided by (used in) financing activities		**41,375**	(7,140)
Net change in cash and cash equivalents		**6,548**	(16,356)
Cash and cash equivalents at January 1		**7,131**	86,970
Effect of exchange rate fluctuations on cash held		**(69)**	28
Cash and cash equivalents at March 31		**13,610**	70,642

The notes on pages 14 to 23 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, 2022 and March 31, 2021
(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, and 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 for resource, military, automotive and industrial markets (see Note 16).

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 % 2022 (2021)
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% (100%)
AirBoss Defense Group, LLC ("ADG USA")	Delaware	100% (100%)
Critical Solutions International, LLC ("CSI") (formerly Critical Solutions International, Inc.)	Texas	100% (100%)
Blackbox Biometrics, Inc. ("B3")	New York	100% (2.5%)
Ace Elastomer, Inc. ("Ace")	South Carolina	100% (nil)

NOTE 2 BASIS OF PREPARATION

Statement of compliance

The interim condensed consolidated financial statements should be read in conjunction with the Company's 2021 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 11, 2022.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 4 ACQUISITION OF ACE ELASTOMER INC.

On August 31, 2021, the Company acquired 100% ownership of Ace for $42.5 million in cash, adjusted for working capital.

Acquisition-related costs

The Company incurred acquisition-related costs of $275 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:

Cash paid on closing	39,958
Cash held back and to be settled in accordance with purchase agreement	2,542
Holdback not paid	(214)
	42,286
Cash paid for excess working capital	371
Total consideration transferred	42,657

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:

Fair value of assets acquired:	
Cash and cash equivalents	540
Restricted cash to settle Ace's outstanding debt	638
Trade and other receivables	2,522
Prepaid expenses	429
Inventories	2,169
Property, plant, and equipment	1,691
Trade name	3,300
Customer relationships	17,060
Unpatented know-how	5,540
Non-compete agreements with employees	90
Total assets	33,979
Fair value of liabilities assumed:	
Trade and other payables	1,852
Debt	633
Total liabilities assumed	2,485
Net assets acquired	31,494

The fair value of Ace's intangible assets have been measured through an independent valuation based on the following key assumptions: financial forecasts, customer attrition rates, estimated technical obsolescence rates, discount rates and royalty rates. The following methodologies were used: Relief From Royalty, Multi Period Excess Earnings, and With and Without Income approach.

Goodwill

Goodwill arising from the acquisition has been recognized as follows:

Consideration transferred	42,657
Fair value of identifiable net assets	(31,494)
Goodwill	11,163

The valuation of goodwill is attributable mainly to the skills and technical talent of Ace's work force, and the synergies expected to be achieved from integrating Ace into AirBoss Rubber Solutions.

NOTE 5 ACQUISITION OF BLACKBOX BIOMETRICS, INC.

On May 17, 2021, the Company acquired 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 $170 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:

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 estimates of fair values as follows:

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:

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 was 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.

Notes to CFS (cont'd)

NOTE 6 TRADE AND OTHER RECEIVABLES

	March 31, 2022	December 31, 2021
Trade receivables	121,640	80,861
Less: expected credit loss	(735)	(601)
	120,905	80,260
Other receivables	3,576	2,180
	124,481	82,440

Impairment losses

The aging of trade receivables at the reporting date was:

	March 31, 2022		December 31, 2021	
	Gross	Impairment	Gross	Impairment
Within terms	103,482	—	64,776	—
Past due 0-30 days	9,790	—	10,520	—
Past due 31-120 days	8,368	(735)	5,565	(601)
	121,640	(735)	80,861	(601)

The continuity of the allowance for doubtful accounts was:

	March 31, 2022	December 31, 2021
Balance at January 1	(601)	(750)
Revised estimate	(193)	45
Impairment loss recognized	24	(188)
Collected	35	292
Balance	(735)	(601)

NOTE 7 INVENTORIES

	March 31, 2022	December 31, 2021
Raw materials and consumables	49,057	49,338
Work in progress	7,661	3,734
Finished goods	80,782	76,848
Inventory in transit	1,648	658
	139,148	130,578
Provisions	(8,872)	(8,431)
	130,276	122,147

An inventory charge of $441 (2021: charge of $3,289) was included in cost of sales for the increase in provisions.

NOTE 8 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 credit facilities.

In September 2021, the Company updated its credit facilities to increase revolving credit availability to $250 million from $150 million with an accordion of $75 million (from $50 million) upon the satisfaction of customary conditions for such features. The new facility bears interest at LIBOR plus applicable margins from 145 to 250 basis points, depending on covenants, and matures on September 23, 2026. Proceeds from the new facility were used to repay the Company's term loan and fund upfront payments related to acquisition of finished goods and other inventories, related primarily to execution on existing contracts.

During the first quarter of 2022, interest expense under the credit facility was $382 (2021: $285), excluding gains and losses related to its interest rate swap agreement.

NOTE 9 DERIVATIVES NOT DESIGNATED IN A FORMAL HEDGE RELATIONSHIP

Foreign exchange hedge

At March 31, 2022, the Company had contracts to sell $20,466 from April 2022 to October 2022 for Canadian dollars ("CAD") $26,000. The fair values of these contracts, representing an unrealized gain of $342, are included in trade and other receivables, including derivatives on the interim condensed consolidated statement of financial position. For the quarter ended March 31, 2022, the unrealized changes in fair value, representing a gain of $395 (2021: loss of $336), are recorded on the interim condensed consolidated statement of profit and comprehensive income as other income (expense).

At December 31, 2021, the Company had contracts to sell $16,617 from January 2022 to September 2022 for CAD $21,000. The fair values of those contracts, representing an unrealized loss of $53 are included in trade and other payables, including derivatives on the interim condensed consolidated statement of financial position.

Interest rate swap

In December 2021, the Company entered into an interest rate swap agreement for a notional amount of $28,125 ($25,781 as at March 31, 2022) 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 2021 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, 2022, interest expense on the swap agreement was $9 (2021: $9).

At March 31, 2022, the fair value of this agreement, representing a gain of $243, is included in loans and borrowings on the interim condensed consolidated statement of financial position. For the quarter ended March 31, 2022, the change in the fair value, representing a gain of $195 (2021: gain of $21) is recorded on the interim condensed consolidated statement of profit and comprehensive income as finance costs.

At December 31, 2021, the fair value of this agreement, representing a gain of $48, was included in loans and borrowings on the interim condensed consolidated 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 borrowings and does not hold it for trading or speculative purposes.

NOTE 10 PROVISIONS

	Site restoration	PSUs and DSUs	Payable to former owners of acquired businesses	Total
Balance at January 1, 2021	74	2,557	—	2,631
Funds withheld on acquisition on ACE (note 4)	—	—	2,542	2,542
Settlement of fund withheld	—	—	(792)	(792)
Issued to acquire B3 (note 5)	—	—	9,008	9,008
Change in fair value of B3 provision	—	—	(289)	(289)
Provisions accrued during the period	—	8,403	—	8,403
Payments during the year	—	(1,069)	—	(1,069)
Forfeitures during the year	—	(129)	—	(129)
Foreign exchange	5	41	—	46
Balance at December 31, 2021	79	9,803	10,469	20,351
Less: amount due within one year	—	(829)	(2,011)	(2,840)
Non-current balance at December 31, 2021	79	8,974	8,458	17,511
Balance at December 31, 2021	79	9,803	10,469	20,351
Change in fair value of B3 provision	—	—	484	484
Costs recovered during the period	—	(1,156)	—	(1,156)
Foreign exchange	—	113	—	113
Balance at March 31, 2022	79	8,760	10,953	19,792
Less: current portion due within one year	—	(6,112)	(2,011)	(8,123)
Non-current balance at March 31, 2022	79	2,648	8,942	11,669

No legal provisions are recognized at March 31, 2022 and December 31, 2021.

Notes to CFS (cont'd)

Performance Stock Units ("PSUs")

The Company has issued certain executives with an aggregate of 303,837 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, 2022**	December 31, 2021	March 31, 2021
January 1	**224,470**	201,210	201,210
New issuances	**79,367**	54,350	52,818
Forfeitures	**—**	(5,847)	—
Settlements	**—**	(25,243)	(25,243)
Balance	**303,837**	224,470	228,785

During the quarter, the Company recognized cost recoveries of $444 (2021: costs of $1,921) 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, 2022**	December 31, 2021	March 31, 2021
January 1	**112,335**	97,060	97,060
New issuances	**2,461**	15,275	6,835
Balance	**114,796**	112,335	103,895

At March 31, 2022, independent directors held 114,796 DSUs. During the quarter, the Company recognized cost recoveries of $712 (2021: costs of $2,066) related to DSUs issued under the Omnibus Plan.

NOTE 11 CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital and Contributed Surplus

Issued share capital is as follows:

In thousands of shares	**March 31, 2022**	December 31, 2021	March 31, 2021
January 1	**26,993**	26,909	26,909
Issued to acquire subsidiary	**20**	—	—
Exercise of stock options	**79**	84	76
Balance	**27,092**	26,993	26,985

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	**2022**	2021
Stock options granted and outstanding	**1,743**	1,695

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 2022**	March 2021
Fair value at grant date	**$11.76**	$15.18
Share price at grant date	**$32.84**	$39.77
Exercise price	**$32.45**	$36.01
Expected volatility (weighted average volatility)	**42.4%**	41.8%
Option life (expected weighted average life)	**5 years**	5 years
Expected dividends	**1.2%**	0.7%
Risk-free interest rate (based on government bonds)	**2.0%**	1.0%

Stock option expense

During the quarter the Company recognized costs of $212 (2021: $88) relating to option grants in General and administrative expenses in the interim condensed consolidated statement of profit and comprehensive income.

Dividends

Dividends on common shares were paid to shareholders of record in 2022 and 2021 as follows:

		2022		2021
Shareholder of record at:	**$CAD/share**	**Date Paid**	$CAD/share	Date Paid
March 31	**0.10**	**April 15, 2022**	0.07	April 15, 2021

The dividend payable at March 31, 2022 was $2,196 (March 31, 2021: $1,502).

NOTE 12 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	**2022**	2021
Numerator for basic and diluted earnings per share:		
Net income	**9,576**	6,319
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	**27,005**	26,921
Dilution effect of stock options	**1,146**	1,109
Dilution of effect of deferred stock units	**111**	97
Diluted weighted average number of shares outstanding	**28,262**	28,127
Net income per share:		
Basic	**0.35**	0.23
Diluted	**0.34**	0.22

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 13 INCOME TAXES

For the three-month periods ended March 31 *In thousands of US dollars*	**2022**	2021
Current tax expense:		
Current period	**2,683**	4,129
Deferred tax expense:		
Origination and reversal of temporary differences	**987**	(1,268)
Total income tax expense	**3,670**	2,861

NOTE 14 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 provided 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 nil and nil, respectively, in the consolidated statement of profit and comprehensive income (2021: $1,651 and $423).

Scientific research and investment tax credits of $204 (2021: $295) were recognized in the quarter and research and development costs were reduced accordingly.

NOTE 15 POST RETIREMENT BENEFITS

Defined Contribution Plan

AirBoss of America Corp. maintains a defined contribution plan for its employees. Total expenses for this plan during the period were $177 (2021: $199).

ANC maintains a 401(k) plan for its employees. Total expenses for this plan during the period were $36 (2021: $33).

AFP maintains a 401(k) plan for its employees. Total expenses for this plan during the period were $114 (2021: $117).

ADG USA maintains a 401(k) plan for its employees. Total expenses for this plan during the period were $34 (2021: $41).

ADG Canada employees are covered under various registered and unregistered defined contribution plans. Total expenses for these plans during the period were $58 (2021: $56).

CSI maintains a 401(k) plan for its employees. Total expenses for this plan during the period were $28 (2021: $21).

B3 maintains a 401(k) plan for its employees. Total expenses for this plan during the period were $15.

Multi-Employer Pension Plan

AFP made contributions of $66 (2021: $73) to the Steel Workers Pension Trust, a multi-employer defined benefit pension plan.

NOTE 16 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 who, collectively, represent the Company's Chief Operating Decision Maker. 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.

Notes to CFS (cont'd)

Information about reportable segments three-months ended March 31	AirBoss Defense Group		Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Segment net sales	**63,962**	45,062	**56,707**	37,216	**29,840**	32,357	**—**	—	**150,509**	114,635
Inter-segment sales	**(946)**	(1,246)	**(4,553)**	(4,944)	**(537)**	(1,116)	**—**	—	**(6,036)**	(7,306)
External net sales	**63,016**	43,816	**52,154**	32,272	**29,303**	31,241	**—**	—	**144,473**	107,329
Depreciation, amortization, and impairment	**2,476**	2,173	**1,623**	1,090	**1,337**	1,340	**61**	60	**5,497**	4,663
Segment measure of profit (loss)	**17,271**	14,928	**4,481**	2,977	**(6,924)**	(2,965)	**(630)**	(5,213)	**14,198**	9,727
Finance costs									**952**	547
Income tax expense									**3,670**	2,861
Profit									**9,576**	6,319
Reportable segment assets[1]	**253,838**	205,240	**147,827**	146,237	**87,696**	83,292	**9,397**	8,495	**498,758**	443,264
Reportable segment liabilities[1]	**106,072**	69,571	**35,866**	32,115	**25,030**	23,565	**89,210**	82,865	**256,178**	208,116
Capital additions	**622**	4,883	**834**	917	**407**	3,609	**278**	372	**2,141**	9,781

[1] Comparative figures as at December 31, 2021.

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
	2022	2021	**2022**	2021	2021
Canada	**16,447**	10,553	**61,560**	45,104	62,278
United States	**118,249**	81,852	**150,468**	118,880	153,100
Other countries	**9,777**	14,924	**—**	—	—
	144,473	107,329	**212,028**	163,984	215,378

Major customers

Net sales to one customer represented approximately 27.1% (2021: 19.4%) of the Company's total net sales. Five customers represented 47.6% (2021: 39.5%) of the Company's total net sales.

Sales by major product

Three-months ended March 31	**2022**	2021
AirBoss Defense Group		
Defense	**52,085**	36,354
Industrial	**10,931**	7,462
	63,016	43,816
Rubber Solutions		
Tolling	**3,320**	2,673
Mixing	**48,834**	29,599
	52,154	32,272
Engineered Products	**29,303**	31,241
Total	**144,473**	107,329

NOTE 17 RELATED PARTIES

Transactions with Related Parties

During the quarter, the Company paid $43 (2021: $44) to companies controlled by the Chairman of the Company for use of office facilities.

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 $2,473 were pledged as collateral on these loans. At March 31, 2021, the loan receivables of $715, including accrued interest, were included in Other Assets on the interim condensed consolidated statement of financial position. During the quarter, interest revenue of $3 (2021: $3) was received.

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Chris Bitsakakis

Chief Financial Officer:
Frank Ientile