AIRBOSS OF AMERICA CORP.
2022 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 4, 2022 and should be read in conjunction with the Unaudited Interim Condensed Consolidated Financial Statements and Notes for the three- and six-month periods ended June 30, 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 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 $250 million. 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)

- Generated EBITDA of $10.46 million;
- Net Debt to EBITDA ratio at June 30, 2022 ("Q2 2022") was 1.29x;
- Declared a quarterly dividend of C$0.10 per common share; and
- Maintained an opportunity pipeline in excess of $1.5 billion at AirBoss Defense Group.

Selected Financial Information

In thousands of US dollars, except share data	Three-months ended June 30		Six-months ended June 30	
(unaudited)	**2022**	2021	**2022**	2021
Financial results:				
Net sales	**110,547**	118,449	**255,020**	225,778
Profit	**2,492**	18,320	**12,068**	24,639
Adjusted Profit[1]	**2,492**	18,474	**12,068**	24,793
Earnings per share (US$)				
– Basic	**0.09**	0.68	**0.45**	0.91
– Diluted	**0.09**	0.65	**0.43**	0.87
Adjusted earnings per share[1] (US$)				
– Basic	**0.09**	0.68	**0.45**	0.92
– Diluted	**0.09**	0.65	**0.43**	0.88
EBITDA[1]	**10,460**	24,914	**30,155**	39,304
Adjusted EBITDA[1]	**10,460**	25,068	**30,155**	39,458
Net cash provided by (used in) operating activities	**9,878**	(6,693)	**(22,808)**	(10,669)
Free cash flow[1]	**7,727**	(9,731)	**(27,100)**	(18,947)
Dividends declared per share (CAD$)	**0.10**	0.10	**0.20**	0.17
Capital additions	**2,155**	3,055	**4,296**	12,836
Financial position:	**June 30, 2022**			December 31, 2021
Total assets	**462,421**			443,264
Debt[2]	**112,015**			80,563
Net Debt[1]	**90,612**			56,033
Shareholders' equity	**243,436**			235,148
Outstanding shares*	**27,092,041**			26,993,181
**27,092,041 at August 4, 2022*				

[1] See Non-IFRS and Other Financial Measures
[2] Debt as at June 30, 2022 and December 31, 2021 include lease liabilities of $16,282 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 a measure of performance under IFRS and should not be considered in isolation or as a substitute for net income under IFRS.

EBITDA and Adjusted EBITDA are 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. Adjusted EBITDA is defined as EBITDA excluding acquisition costs, and non-recurring costs. A reconciliation of Profit to EBITDA and Adjusted EBITDA is below.

	Three-months ended June 30 (unaudited)		Six-months ended June 30 (unaudited)	
In thousands of US dollars	**2022**	2021	**2022**	2021
EBITDA:				
Profit	**2,492**	18,320	**12,068**	24,639
Finance costs	**1,533**	1,134	**2,485**	1,681
Depreciation, amortization and impairment	**5,492**	4,830	**10,989**	9,493
Income tax expense	**943**	630	**4,613**	3,491
EBITDA	**10,460**	24,914	**30,155**	39,304
Acquisition fees	**—**	154	**—**	154
Adjusted EBITDA	**10,460**	25,068	**30,155**	39,458

Adjusted Profit is a non-IFRS measure defined as profit before acquisition costs and non-recurring costs. This measure and Adjusted earnings per share are used to evaluate operating results of the Company. A reconciliation of Profit to Adjusted Profit and Adjusted earnings per share is below.

	Three-months ended June 30 (unaudited)		Six-months ended June 30 (unaudited)	
In thousands of US dollars	**2022**	2021	**2022**	2021
Adjusted Profit:				
Profit	**2,492**	18,320	**12,068**	24,639
Acquisition fees	**—**	154	**—**	154
Adjusted Profit	**2,492**	18,474	**12,068**	24,793
Basic weighted average number of shares outstanding	**27,092**	26,985	**27,049**	26,953
Diluted weighted average number of shares outstanding	**28,193**	28,374	**28,225**	28,269
Adjusted earnings per share (in US dollars):				
Basic	**0.09**	0.68	**0.45**	0.92
Diluted	**0.09**	0.65	**0.43**	0.88

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	**June 30, 2022** (unaudited)	December 31, 2021
Net debt:		
Loans and borrowings - current	**2,346**	2,356
Loans and borrowings - non-current	**109,669**	78,207
Leases included in loans and borrowings	**(16,282)**	(17,399)
Cash and cash equivalents	**(5,121)**	(7,131)
Net debt	**90,612**	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	Three-months ended June 30 (unaudited)		Six-months ended June 30 (unaudited)	
In thousands of US dollars	**2022**	2021	**2022**	2021
Free cash flow:				
Net cash provided by (used in) operating activities	**9,878**	(6,693)	**(22,808)**	(10,669)
Acquisition of property, plant and equipment	**(1,923)**	(2,870)	**(3,757)**	(7,743)
Acquisition of intangible assets	**(228)**	(168)	**(535)**	(541)
Proceeds from disposition	**—**	—	**—**	6
Free cash flow	**7,727**	(9,731)	**(27,100)**	(18,947)
Basic weighted average number of shares outstanding	**27,092**	26,985	**27,049**	26,953
Diluted weighted average number of shares outstanding	**28,193**	26,985	**27,049**	26,953
Free cash flow per share (in US dollars): Basic	**0.29**	(0.36)	**(1.00)**	(0.70)
Diluted	**0.27**	(0.36)	**(1.00)**	(0.70)

OVERVIEW

The Company has continued to focus on operational execution, growth initiatives and investments while mitigating the impact of on-going global freight, labor and logistics challenges, raw material price escalations, constraints from the COVID-19 pandemic and increasing turbulence from geopolitical headwinds. Despite these evolving global challenges, AirBoss continues to focus on opportunities in AirBoss Defense Group's ("ADG") opportunity pipeline, with strong traction for the quarter in at AirBoss Rubber Solutions ("ARS") and continued diligent work to address the related impacts to AirBoss Engineered Products ("AEP"). The Company remains committed to solidifying its position in the PPE, health care and survivability sectors and supporting its customers, employees and stakeholders.

Despite the challenging quarter, the Company continued to take the necessary risk mitigation steps within its supply chain by identifying alternative raw material sources both domestically and internationally. Continued recovery of volumes remains subject to the ongoing management of stable and sustained operations of businesses globally, which continues to be difficult to predict, especially considering the new and ongoing challenges including economic indicators driving inflation globally. Notwithstanding these challenges, including further constraints on our supply chain for the foreseeable future in 2022, the Company believes it is poised for continued opportunities during the remainder of the year.

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, especially given the current conflict unfolding in the Ukraine. In addition, ADG continues to work on the significant opportunities in its opportunity pipeline, which remains in excess of $1.5 billion and is expected to help drive growth, subject to timing as delays in the conversion of these opportunities are expected to continue through the third quarter of 2022. 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. ADG also continues to focus on the commercialization of the new AirBoss 100™ Half Mask Respirator across its network, following the previously announced receipt of NIOSH approval for this product.

The Rubber Solutions segment saw strong demand that exceeded volumes for the previous quarter and exceeded volumes for the same quarter in 2021, while it continued to focus on optimizing its equipment capacity, specifically in Scotland Neck, NC. The ongoing integration of Ace Elastomers continues to deliver strong results with specialized products, expanded production of a broader array of compounds (white and color and enhanced flexibility in attracting and fulfilling new business through identified synergies and margin expansion. The Company continues to take advantage of its scale and global supply chain management expertise to onboard new customers seeking new suppliers to drive volume and growth, including expanding into the U.S. South and Mid-West by leveraging Ace's geographic footprint. AirBoss continued to invest in its research and development expertise to support enhanced collaboration with customers and better reflect the Company's focus on innovative and proprietary technical solutions.

The Engineered Products segment continued to be impacted by significant raw material price increases, supply chain challenges, labor challenges and electronic chip shortages impacting OEM production schedules. Management remains committed to addressing 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. To further accelerate pricing strategies with key customers, management has engaged the services of a top tier advisory services firm focused on the immediate goal of price optimization across several platforms. AEP also continued to focus on its operational improvement plan by managing variable costs and sustaining a stable hourly workforce while dealing with volume reductions in the automotive sector, as well as its commitment to drive efficiencies and best-in-class automation. This included significant investment in new injection presses and state of the art automated work cells, as previously mentioned. The segment also continued its focus on diversification of its product lines into sectors adjacent to the automotive space.

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 accretive transactions.

RESULTS OF OPERATIONS - For the three- and six-month periods ended June 30, 2022 compared to 2021

NET SALES

Consolidated net sales for Q2 2022 decreased by 6.7% to $110,547 compared with the three-month period ended June 30, 2021 ("Q2 2021"). This decrease was primarily attributable to ADG's delivery of Powered Air-Purifying Respirators ("PAPRs") and nitrile gloves to the U.S. Department for Health and Human Services ("HHS") in the prior year, further decreased by softening in the Engineered Products segment. These decreases were offset by the increased sales at Rubber Solutions across the majority of customer sectors. Consolidated net sales for 2022 year-to-date increased by 13.0% to $255,020 compared with 2021 year-to-date driven by a 51.6% increase in sales at Rubber Solutions.

Three-months ended June 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Inter-segment net sales	Total
Net Sales	**2022**	**25,839**	**63,180**	**26,841**	**(5,313)**	**110,547**
	2021	56,785	41,860	27,627	(7,823)	118,449
Increase (decrease) $		(30,946)	21,320	(786)	2,510	(7,902)
Increase (decrease) %		(54.5)	50.9	(2.8)	(32.1)	(6.7)

Six-months ended June 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Inter-segment net sales	Total
Net Sales	**2022**	**89,801**	**119,887**	**56,681**	**(11,349)**	**255,020**
	2021	101,847	79,076	59,984	(15,129)	225,778
Increase (decrease) $		(12,046)	40,811	(3,303)	3,780	29,242
Increase (decrease) %		(11.8)	51.6	(5.5)	(25.0)	13.0

AirBoss Defense Group

Net sales in the AirBoss Defense Group segment for Q2 2022 decreased by 54.5% to $25,839 from $56,785 in Q2 2021. Net sales for 2022 year-to-date decreased by 11.8% to $89,801, from $101,847 for 2021 year-to-date. The decreases were primarily the result of delivery of PAPRs and nitrile gloves to HHS in the corresponding periods in 2021.

Rubber Solutions

Net sales in the Rubber Solutions segment for Q2 2022 increased by 50.9% to $63,180, from $41,860 in Q2 2021. Volume was up 14.1% with increases across the vast majority of sectors due to increased momentum at most customers' operations despite continuing supply chain challenges related to raw material supply and elevated freight costs. Tolling volume was up 41.2% and non-tolling volume was up 8.8%. 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 2022 year-to-date increased by 51.6% to $119,887, from $79,076 for 2021 year-to-date. Volume was up 10.6% with increases across the majority of sectors due to the continued ramp up of most customers' operations despite residual softness due to the COVID-19 pandemic. Year-to-date tolling volume was up 15.9% while non-tolling volume was up 9.3%.

Engineered Products

Net sales in the Engineered Products segment for Q2 2022 decreased by 2.8% to $26,841, from $27,627 in Q2 2021. The decrease was due to lower volumes in SUV, light truck and mini-van platforms related to 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.

Net sales in the Engineered Products segment for 2022 year-to-date decreased by 5.5% to $56,681, from $59,984 for 2021 year-to-date. The decrease was due to lower volumes in SUV, light truck and mini-van platforms compared to the same period in 2021. Compared to the same period in 2021, volume and sales decreased as the automotive sector continued to manage volume volatility given the challenges with global electronic chip shortages in addition to freight and logistics constraints. This softness is anticipated to continue in the foreseeable future.

GROSS PROFIT

Consolidated gross profit for Q2 2022 decreased by $18,503 to $14,800, compared with Q2 2021, driven by lower volumes at ADG related to PAPR and nitrile glove deliveries recognized in the same period in 2021 and lower volume at Engineered Products, partially offset by strong improvement at Rubber Solutions driven by higher volumes. Gross profit as a percentage of net sales was reduced to 13.4% in Q2 2022 compared with 28.1% for Q2 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 no further receipt of government-directed wage subsidies compared to last year, partially offset by improvements at Rubber Solutions.

Consolidated gross profit for 2022 year-to-date decreased by $12,677 to $46,401 compared with 2021 year-to-date, driven by lower volume at ADG and margin compression at Engineered Products due to labor, freight and raw material increases, partially offset by significant improvements at Rubber Solutions. Gross profit as a percentage of net sales decreased to 18.2% for 2022 year-to-date compared with 26.2% for 2021 year-to-date. These decreases were primarily a result of lower margin at the ADG and Engineered Products segments, including approximately $8,000 of government-directed wage subsidies recognized for the same period in 2021, partially offset by the continued improvement at Rubber Solutions.

Three-months ended June 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Total
Gross Profit	**2022**	**9,754**	**9,791**	**(4,745)**	**14,800**
	2021	25,161	5,490	2,652	33,303
Increase (decrease) $		(15,407)	4,301	(7,397)	(18,503)
% of net sales	**2022**	**37.7**	**15.5**	**(17.7)**	**13.4**
	2021	44.3	13.1	9.6	28.1

Six-months ended June 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Total
Gross Profit	**2022**	**37,425**	**17,799**	**(8,823)**	**46,401**
	2021	46,007	10,699	2,372	59,078
Increase (decrease) $		(8,582)	7,100	(11,195)	(12,677)
% of net sales	**2022**	**41.7**	**14.8**	**(15.6)**	**18.2**
	2021	45.2	13.5	4.0	26.2

AirBoss Defense Group

Gross profit at AirBoss Defense Group for Q2 2022 decreased by 61.2% to $9,754 (37.7% of net sales), from $25,161 (44.3% of net sales) in Q2 2021. The decrease was primarily the result of deliveries of PAPRs and nitrile gloves to HHS in the corresponding periods in 2021 and the elimination of government-directed wage subsidies, partially offset by favorable mix of certain other portfolio products.

Gross profit at AirBoss Defense Group for 2022 year-to-date decreased by 18.7% to $37,425 (41.7% of net sales), from $46,007 (45.2% of net sales) for 2021 year-to-date. The decrease was primarily the result of deliveries of PAPRs and nitrile gloves to HHS in 2021 and the elimination of government-directed wage subsidies, partially offset by a continued focus on controllable operational cost containment and managing overhead costs.

Rubber Solutions

Gross profit at Rubber Solutions for Q2 2022 increased by 78.3% to $9,791 (15.5% of net sales) from $5,490 (13.1% of net sales) in Q2 2021. This was primarily the result of improvement in mix, increased tolling and non-tolling volumes and managing controllable overhead costs, partially offset by increased raw material, labor and logistics costs and the elimination of government-directed wage subsidies.

Gross profit at Rubber Solutions for 2022 year-to-date increased by 66.4% to $17,799 (14.8% of net sales), from $10,699 (13.5% of net sales) for 2021 year-to-date, primarily as a result of 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 wage subsidies.

Engineered Products

Gross profit at Engineered Products for Q2 2022 decreased to $(4,745) from $2,652 in Q2 2021. This was primarily a result of a government-directed wage subsidy in 2021 and lower volumes in part due to the continued electronic ship shortages in addition to supply chain disruptions, partially offset by a continued focus on controllable operational cost containment.

Gross profit at Engineered Products for 2022 year-to-date decreased to $(8,823) from $2,372 for 2021 year-to-date. This was primarily a result of a government-directed wage subsidy in 2021 and challenges associated with global electronic chip shortages in the automotive sector combined with raw material shortages in addition to freight and logistics constraints and higher labor, material and logistics costs partially offset by a continued focus on controllable operational cost containment and managing overhead costs.

OPERATING EXPENSES

Consolidated operating expenses decreased by $3,387 and $2,032 for Q2 2022 and 2022 year-to-date, respectively. The decreases were primarily due to lower stock-based compensation costs, and lower selling costs, partially offset by the elimination of government-directed wage subsidies, the acquisition of B3 and ACE, and the additional amortization expense related to B3's and ACE's intangible assets.

Three-months ended June 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	**2022**	**6,132**	**3,129**	**2,757**	**(2,186)**	**9,832**
	2021	7,547	1,804	2,034	1,834	13,219
Increase (decrease) $		(1,415)	1,325	723	(4,020)	(3,387)
% of net sales	**2022**	**23.7**	**5.0**	**10.3**	**N/A**	**8.9**
	2021	13.3	4.3	7.4	N/A	11.2

Six-months ended June 30 *In thousands of US dollars*		AirBoss Defense Group	Rubber Solutions	Engineered Products	Unallocated Corporate Costs	Total
Operating Expenses	**2022**	**16,532**	**6,656**	**5,603**	**(1,556)**	**27,235**
	2021	13,465	4,036	4,719	7,047	29,267
Increase (decrease) $		3,067	2,620	884	(8,603)	(2,032)
% of net sales	**2022**	**18.4**	**5.6**	**9.9**	**N/A**	**10.7**
	2021	13.2	5.1	7.9	N/A	13.0

AirBoss Defense Group

AirBoss Defense Group's operating expenses for Q2 2022 decreased by $1,415 to $6,132 due to lower selling costs partially offset by higher administration costs, the acquisition of B3, additional amortization expense related to B3's intangible assets, and the elimination of government-directed wage subsidies.

AirBoss Defense Group's operating expenses for 2022 year-to-date increased by $3,067 to $16,532 due to higher administration costs, the acquisition of B3, and additional amortization expense related to B3's intangible assets, and the elimination of government-directed wage subsidies.

Rubber Solutions

Rubber Solutions' operating expenses for Q2 2022 increased by $1,325 to $3,129 primarily due to the acquisition of Ace, the amortization of Ace's intangible assets, and the elimination of government-directed wage subsidies, partially offset by a foreign exchange gain.

Rubber Solutions' operating expenses for 2022 year-to-date increased by $2,620 to $6,656 primarily due to the acquisition of Ace, the amortization of Ace's intangible assets, higher administration costs, and the elimination of government-directed wage subsidies, partially offset by a foreign exchange gain.

Engineered Products

Engineered Products' operating expenses for Q2 2022 increased by $723 to $2,757 due to the elimination of a government-directed wage subsidy partially offset by lower administration costs.

Engineered Products' operating expenses for 2022 year-to-date increased by $884 to $5,603 due to the elimination of a government-directed wage subsidy and higher R&D costs.

Unallocated Corporate Costs

Unallocated corporate costs for Q2 2022 decreased by $4,020 to $(2,186) primarily due to cost recoveries from stock-based compensation, partially offset by a foreign exchange loss.

Unallocated corporate costs for 2022 year-to-date decreased by $8,603 to $(1,556) primarily due to cost recoveries from stock-based compensation, partially offset by a foreign exchange loss, and increased administration costs.

FINANCE COSTS

Finance costs for three- and six-months ended June 30, 2022 were $1,533 (2021: $1,134) and 2,485 (2021: 1,681). The increases were primarily due to an adjustment to the fair value of contingent consideration related to the acquisition of B3 and additional borrowings, partially offset by gains related to the interest rate swap.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $943 in Q2 2022 (Q2 2021: $630) for an effective income tax rate of 27.5% (3.3% in Q2 2021). The Company recorded a 2022 year-to-date income tax expense of $4,613 (2021: $3,491) for an effective income tax rate of 27.7% (2021: 12.4%). The effective tax rate was lower in 2021 due to the recognition of temporary differences previously not 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 $2,492 for Q2 2022, compared with $18,320 for Q2 2021. Profit totaled $12,068 for 2022 year-to-date compared with $24,639 for 2021 year-to-date. The decrease was primarily attributable to lower gross profit for the reasons noted above, and higher tax expense. Basic and fully diluted net earnings per share in Q2 2022 were $0.09 and $0.09, respectively compared with $0.68 and $0.65, respectively, for Q2 2021. Basic and fully diluted net earnings per share for 2022 year-to-date was $0.45 and $0.43, respectively compared with $0.91 and $0.87, respectively, for 2021 year-to-date. The decrease in profitability was for the reasons noted above.

QUARTERLY INFORMATION

In thousands of US dollars			Earnings per share	
Quarter Ended	Net Sales	Profit	Basic	Diluted
2022				
June 30, 2022	**110,547**	**2,492**	**0.09**	**0.09**
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

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 $250,000, and $102,249 was drawn against this facility as at June 30, 2022.

During 2022 year-to-date, cash of $22,808 was used by operations, (2021: $10,669), $4,292 was used by investing activities (2021: $15,125), and $25,104 was provided by financing activities (Q2 2021: $15,189 used). Cash and cash equivalents decreased by $2,010 from $7,131 to $5,121, adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

Cash used by operating activities increased by $12,139 compared with 2021. The increase was due to lower profit of $12,571, $1,739 more cash used for working capital needs, and higher interest payments of $766, partially offset by lower income tax payments of $3,173.

Cash used for working capital for 2022 increased to $40,209 (2021: $38,470) as a result of the following factors:

- Cash used for accounts receivable was $11,509, primarily related to increased sales at the Rubber Solutions Segment.
- Cash used for inventory was $14,317, primarily related to AirBoss Defense Group's carryover inventory of nitrile gloves, and at the Rubber Solutions Segment for raw material safety stock and due to raw material price increases.
- Cash from prepaid expenses was $1,803, primarily from taking delivery of goods and services.

- Cash used for accounts payable was $15,233 due to lower volumes at AirBoss Defense Group and Engineered Products segments relative to the quarter ended December 31, 2021, partially offset by increased activity at the Rubber Solutions segment.
- Cash used for provisions of $953 related to the payout of preferred share units.

Investing Activities

Property, Plant and Equipment

During 2022 year-to-date, the following investments were made:

- ADG invested $853. $251 was invested in growth initiatives and the balance to replace or upgrade existing property, plant and equipment;
- Rubber Solutions invested $2,168. $69 was invested in growth initiatives, $677 in cost savings initiatives, and the balance to replace or upgrade existing property, plant and equipment;
- Engineered Products invested $736. $184 was invested in growth initiatives, $335 was invested in cost savings initiatives, and the balance to replace or upgrade existing property, plant and equipment.

Intangible Assets

During 2022 year-to-date, the Company invested $535 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 paid $1,109 (2021: $1,050) of principal payments for its lease obligations.

The Company paid dividends of $4,240 during the 2022 year-to-date (2021: $3,013).

Government assistance

On May 1, 2021, 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 General and administrative expenses in the interim condensed consolidated statement of profit.

Scientific research and investment tax credits of $127 (2021: $193) were recognized in the quarter and Research and development costs were reduced accordingly; year-to-date $331 (2021: $488).

Dividends

A quarterly dividend of CAD $0.10 per share was declared on May 11, 2022 and paid on July 15, 2022. Total annual dividends declared during 2021 were CAD $0.37 per common share.

Outstanding shares

As at August 4, 2022, the Company had 27,092,041 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

During the quarter, the Company paid $42 (2021: $47) to companies controlled by the Chairman of the Company for use of office facilities; year-to-date $85 (2021: $91).

In March 2018, the Company provided a share purchase loan of CAD $500 to the President and Chief Operating Officer that bears interest at 1%. In June 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 that bear interest at 2%. The loan to the Executive Vice President, General Counsel was repaid in May 2022. In April 2022 the Company loaned $1,750 to the CEO of ADG, secured by shares of the Company, bearing interest at 1%. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities, and maturity. All loans are full recourse and interest is due and payable semi-annually. In total, 141,178 shares of the Company having a fair value of $1,701 were pledged as collateral on these loans. At June 30, 2022, the loans receivable of $2,214, including accrued interest, were included in Other Assets on the interim condensed consolidated statement of financial position. During the quarter, interest revenue of $4 (2021: $2) was received; year-to-date $7 (2021: $5).

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 June 30, 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 June 30, 2022, the Company had contracts to sell USD $23,413 from July 2022 to February 2023 for CAD $30,000. The fair value of these contracts, representing an unrealized loss of $133, are included in trade and other payables, including derivatives on the interim condensed consolidated statement of financial position. For the quarter ended June 30, 2022, the unrealized changes in fair value, representing a loss of $475 (2021:$52), are recorded on the interim condensed consolidated statement of profit and comprehensive income as other income (expense); year-to-date $80 (2021: $388).

At December 31, 2021, the Company had contracts to sell USD $16,617 from January 2022 to September 2022 for CAD $21,000. The fair value 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 ($25,313 as at June 30, 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 a previously-existing 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 June 30, 2022, interest recovery on the swap agreement was $23 (2021: expense of $11); year-to-date $14 (2021: expense of $20).

At June 30, 2022, the fair value of this agreement, representing a gain of $317, is included in loans and borrowings on the interim condensed consolidated statement of financial position. For the quarter ended June 30, 2022, the change in the fair value, representing a gain of $74 (2021: $3) is recorded on the interim condensed consolidated statement of profit and comprehensive income as finance costs; year-to-date $269 (2021: $24).

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.

August 4, 2022

Gren Schoch	**Frank Ientile**
Chairman and Chief Executive Officer	Chief Financial Officer

Interim Condensed Consolidated Statement of Financial Position

Unaudited

In thousands of US dollars	*Note*	**June 30, 2022**	December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents	*4, 5*	**5,121**	7,131
Trade and other receivables	*6*	**93,874**	82,440
Prepaid expenses		**8,229**	10,032
Inventories	*7*	**136,464**	122,147
Current income taxes receivable	*13*	**8,543**	6,136
Total current assets		**252,231**	227,886
Non-current assets			
Property, plant and equipment		**90,537**	93,148
Intangible assets	*4, 5*	**116,993**	121,075
Other assets		**2,660**	1,155
Total non-current assets		**210,190**	215,378
Total assets		**462,421**	443,264
LIABILITIES			
Current liabilities			
Loans and borrowings	*8*	**2,346**	2,356
Trade and other payables, including derivatives	*9*	**75,529**	103,026
Provisions	*10*	**15,730**	2,840
Total current liabilities		**93,605**	108,222
Non-current liabilities			
Loans and borrowings	*8*	**109,669**	78,207
Employee benefits	*15*	**559**	579
Provisions	*10*	**10,444**	17,511
Deferred income tax liabilities	*13*	**4,708**	3,597
Total non-current liabilities		**125,380**	99,894
Total liabilities		**218,985**	208,116
EQUITY			
Share capital	*11*	**87,811**	87,937
Contributed surplus	*11*	**3,087**	2,531
Retained earnings		**152,538**	144,680
Total equity		**243,436**	235,148
Total liabilities and equity		**462,421**	443,264

Subsequent event - see note 10
The notes on pages 15 to 24 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** **2022**	2021	**Six-month** **2022**	2021
Net Sales		**110,547**	118,449	**255,020**	225,778
Cost of sales	*14*	**(95,747)**	(85,146)	**(208,619)**	(166,700)
Gross profit		**14,800**	33,303	**46,401**	59,078
General and administrative expenses	*14*	**(7,763)**	(9,597)	**(19,398)**	(22,805)
Selling and marketing expenses		**(948)**	(2,992)	**(5,904)**	(5,108)
Research and development expenses		**(973)**	(795)	**(1,879)**	(1,602)
Other income (expenses)		**(148)**	165	**(54)**	248
		(9,832)	(13,219)	**(27,235)**	(29,267)
Results from operating activities		**4,968**	20,084	**19,166**	29,811
Finance costs	*8, 9*	**(1,533)**	(1,134)	**(2,485)**	(1,681)
Profit before income tax		**3,435**	18,950	**16,681**	28,130
Income tax expense	*13*	**(943)**	(630)	**(4,613)**	(3,491)
Profit and total comprehensive income for the period		**2,492**	18,320	**12,068**	24,639
Earnings per share:					
Basic	*12*	**0.09**	0.68	**0.45**	0.91
Diluted	*12*	**0.09**	0.65	**0.43**	0.87

The notes on pages 15 to 24 are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Changes in Equity

Unaudited

		Attributable to equity holders of the Company			
In thousands of US dollars	*Note*	Share Capital	Contributed Surplus	Retained Earnings	Total Equity
Balance at January 1, 2021		87,060	1,578	105,950	194,588
Total comprehensive income for the period		—	—	24,639	24,639
Contributions by and distributions					
Stock options expensed		—	465	—	465
Stock options exercised		953	(209)	—	744
Dividends to equity holders		—	—	(3,718)	(3,718)
Total contributions by and distributions		953	256	(3,718)	(2,509)
Balance at June 30, 2021		88,013	1,834	126,871	216,718
Balance at January 1, 2022		87,937	2,531	144,680	235,148
Total comprehensive income for the period		—	—	12,068	12,068
Contributions by and distributions					
Stock options expensed		—	680	—	680
Stock options exercised		(622)	(71)	—	(693)
Stock options forfeited		—	(53)	—	(53)
Shares issued		496	—	—	496
Dividends to equity holders		—	—	(4,210)	(4,210)
Total contributions by and distributions		(126)	556	(4,210)	(3,780)
Balance at June 30, 2022		87,811	3,087	152,538	243,436

The notes on pages 15 to 24 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	2022	2021
Cash flows from operating activities			
Profit for the six-month period ended June 30		**12,068**	24,639
Adjustments for:			
Depreciation		**6,411**	6,426
Amortization of intangible assets		**4,578**	3,067
Finance costs	*8, 9*	**2,485**	1,681
Government assistance loan forgiveness	*14*	**—**	(6,496)
Unrealized foreign exchange losses		**102**	756
Share-based payment (cost recoveries) expense	*10, 11*	**(4,990)**	4,730
SRED tax credits		**(331)**	(488)
Income tax expense	*13*	**4,613**	3,491
Other		**(20)**	(83)
		24,916	37,723
Change in inventories		**(14,317)**	(16,576)
Change in trade and other receivables		**(11,509)**	(18,331)
Change in prepaid expenses		**1,803**	(9,147)
Change in trade and other payables		**(15,233)**	6,653
Change in provisions	*10*	**(953)**	(1,069)
Net change in non-cash working capital balances		**(40,209)**	(38,470)
Interest paid		**(1,898)**	(1,132)
Income tax paid		**(5,617)**	(8,790)
Net cash provided by (used in) operating activities		**(22,808)**	(10,669)
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(3,757)**	(7,743)
Acquisition of intangible assets		**(535)**	(541)
Proceeds from asset disposals		**—**	6
Cash paid to acquire subsidiary	*4, 5*	**—**	(7,615)
Cash acquired on acquisition of subsidiary	*4, 5*	**—**	768
Net cash used in investing activities		**(4,292)**	(15,125)
Cash flows from financing activities			
Repayment of borrowings		**—**	(11,875)
Proceeds from operating line of credit	*8*	**32,650**	—
Principal payments for lease liabilities		**(1,109)**	(1,050)
Repayment of share purchase loan	*17*	**239**	—
Issuance of share purchase loan	*17*	**(1,750)**	—
Exercise of options (net of withholding taxes)		**(693)**	744
Interest received on share purchase loans	*17*	**7**	5
Dividends paid	*11*	**(4,240)**	(3,013)
Net cash provided by (used in) financing activities		**25,104**	(15,189)
Net change in cash and cash equivalents		**(1,996)**	(40,983)
Cash and cash equivalents at January 1		**7,131**	86,970
Effect of exchange rate fluctuations on cash held		**(14)**	166
Cash and cash equivalents at June 30		**5,121**	46,153

The notes on pages 15 to 24 are an integral part of these interim condensed consolidated financial statements.

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

For the three- and six-month periods ended June 30, 2022 and June 30, 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, 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 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, LLC ("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 August 4, 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 US$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

In thousands of US dollars	
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 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:

In thousands of US dollars	
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
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.

In thousands of US dollars	
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 $20.0 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:

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 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 $20.0 million which is the expected payout based on forecast revenues at that date, discounted using a risk adjusted discount rate of 25%.

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 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.

NOTE 6 TRADE AND OTHER RECEIVABLES

In thousands of US dollars	**June 30, 2022**	December 31, 2021
Trade receivables	**91,824**	80,861
Less: expected credit loss	**(748)**	(601)
	91,076	80,260
Other receivables	**2,798**	2,180
	93,874	82,440

Impairment losses

The aging of trade receivables at the reporting date was:

	June 30, 2022		December 31, 2021	
In thousands of US dollars	**Gross**	**Impairment**	Gross	Impairment
Within terms	**72,395**	**—**	64,776	—
Past due 0-30 days	**11,408**	**—**	10,520	—
Past due 31-120 days	**8,021**	**(748)**	5,565	(601)
	91,824	**(748)**	80,861	(601)

The continuity of the allowance for doubtful accounts was:

In thousands of US dollars	**June 30, 2022**	December 31, 2021
Balance at January 1	**(601)**	(750)
Revised estimate	**24**	45
Impairment loss recognized	**(245)**	(188)
Collected	**74**	292
Balance	**(748)**	(601)

NOTE 7 INVENTORIES

In thousands of US dollars	**June 30, 2022**	December 31, 2021
Raw materials and consumables	**55,355**	49,338
Work in progress	**7,503**	3,734
Finished goods	**79,927**	76,848
Inventory in transit	**2,359**	658
	145,144	130,578
Provisions	**(8,680)**	(8,431)
	136,464	122,147

An inventory charge of $249 (2021: charge of $4,215) 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 second quarter of 2022, interest expense under the credit facility was $742 (2021: $227), excluding gains and losses related to its interest rate swap agreement; year-to-date $1,124 (2021: $512).

NOTE 9 DERIVATIVES NOT DESIGNATED IN A FORMAL HEDGE RELATIONSHIP

Foreign exchange hedge

At June 30, 2022, the Company had contracts to sell USD $23,413 from July 2022 to February 2023 for CAD $30,000. The fair value of these contracts, representing an unrealized loss of $133, are included in trade and other payables, including derivatives on the interim condensed consolidated statement of financial position. For the quarter ended June 30, 2022, the unrealized changes in fair value, representing a loss of $475 (2021:$52), are recorded on the interim condensed consolidated statement of profit and comprehensive income as other income (expense); year-to-date $80 (2021: $388).

At December 31, 2021, the Company had contracts to sell USD $16,617 from January 2022 to September 2022 for CAD $21,000. The fair value 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 ($25,313 as at June 30, 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 a previously-existing 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 June 30, 2022, interest recovery on the swap agreement was $23 (2021: expense of $11); year-to-date $14 (2021: expense of $20).

At June 30, 2022, the fair value of this agreement, representing a gain of $317, is included in loans and borrowings on the interim condensed consolidated statement of financial position. For the quarter ended June 30, 2022, the change in the fair value, representing a gain of $74 (2021: $3) is recorded on the interim condensed consolidated statement of profit and comprehensive income as finance costs; year-to-date $269 (2021: $24).

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

In thousands of US dollars	Site restoration	PSUs and DSUs	Legal	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
Costs recovered during the period	—	(5,622)	—	—	(5,622)
Payments during the period	—	(689)	—	(259)	(948)
Change in fair value of B3 provision	—	—	—	995	995
Provision for settlement	—	—	11,500	—	11,500
Foreign exchange	—	(102)	—	—	(102)
Balance at June 30, 2022	79	3,390	11,500	11,205	26,174
Less: current portion due within one year	—	(2,272)	(11,500)	(1,958)	(15,730)
Non-current balance at June 30, 2022	79	1,118	—	9,247	10,444

In the second quarter of 2022, the Company was named a defendant in legal proceedings related to shipping and demurrage costs owed to a vendor by a subcontractor of the Company. In July of 2022, the Company agreed to a settlement in respect of the shipping costs for $5.0 million, and an additional $6.0 million contingent on future cost recoveries for which no provision has been recorded. The Company has accrued an additional $6.5 million (inclusive of legal fees), which is the Company's best estimate of the amount required to settle the demurrage costs as at June 30, 2022, based on information available, advice from independent legal counsel and the range of possible outcomes. The Company expects to pay all amounts for which a provision has been recorded before the end of the year.

Performance Stock Units ("PSUs")

The Company has issued certain executives with an aggregate of 274,841 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, 2022**	December 31, 2021	June 30, 2021
January 1	**224,470**	201,210	201,210
New issuances	**79,367**	54,350	54,350
Forfeitures	**(11,520)**	(5,847)	—
Settlements	**(17,476)**	(25,243)	(25,243)
Balance	**274,841**	224,470	230,317

During the quarter the Company recognized cost recoveries of $2,599 (2021: expense of $594) related to the plan; year-to-date $3,043 (2021: expense of $2,515).

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, 2022**	December 31, 2021	June 30, 2021
January 1	**112,335**	97,060	97,060
New issuances	**5,410**	15,275	9,460
Balance	**117,745**	112,335	106,520

At June 30, 2022, independent directors held 117,745 DSUs. During the quarter the Company recognized cost recoveries of $1,862 (2021: $318) related to DSUs issued under the Omnibus Plan; year-to-date $2,574 (2021: expense of $1,750).

NOTE 11 CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital and Contributed Surplus

Issued share capital is as follows:

In thousands of shares	**June 30, 2022**	December 31, 2021	June 30, 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 June 30

In thousands of options	**2022**	2021
Stock options granted and outstanding	**1,704**	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 $415 (2021: $377) relating to option grants in General and administrative expenses in the interim condensed consolidated statement of profit and comprehensive income; year-to-date $627 (2021: $465).

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
June 30	**0.10**	**July 15, 2022**	0.10	July 15, 2021
March 31	**0.10**	**April 15, 2022**	0.07	April 15, 2021

The dividend payable at June 30, 2022 was $2,086 (June 30, 2021: $2,177).

NOTE 12 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	**2022**	2021	**2022**	2021
Numerator for basic and diluted earnings per share: Net income	**2,492**	18,320	**12,068**	24,639
Denominator for basic and diluted earnings per share:				
Basic weighted average number of shares outstanding	**27,092**	26,985	**27,049**	26,953
Dilution effect of stock options	**987**	1,286	**1,064**	1,221
Dilution of effect of deferred stock units	**114**	103	**112**	95
Diluted weighted average number of shares outstanding	**28,193**	28,374	**28,225**	28,269
Net income per share: Basic	**0.09**	0.68	**0.45**	0.91
Diluted	**0.09**	0.65	**0.43**	0.87

For the quarter ended June 30, 2022, 375,762 options (2021: nil) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive; year-to-date 375,672 options (2021: nil).

NOTE 13 INCOME TAXES

For the three- and six-month periods ended June 30 *In thousands of US dollars*	Three-month **2022**	 2021	Six-month **2022**	 2021
Current tax expense:				
Current period	**818**	1,760	**3,501**	5,889
Adjustment for prior period(s)	**—**	(30)	**—**	(30)
	818	1,730	**3,501**	5,859
Deferred tax expense:				
Origination and reversal of temporary differences	**125**	(1,109)	**1,112**	(2,377)
Adjustment for prior period(s)	**—**	9	**—**	9
	125	(1,100)	**1,112**	(2,368)
Total income tax expense	**943**	630	**4,613**	3,491

NOTE 14 GOVERNMENT ASSISTANCE

On May 1, 2021, 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. During the quarter, 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: $769 and $226); year-to-date nil and nil (2021: $2,380 and $569).

Scientific research and investment tax credits of $127 (2021: $193) were recognized in the quarter and Research and development costs were reduced accordingly; year-to-date $331 (2021: $488).

NOTE 15 POST RETIREMENT BENEFITS

Defined Contribution Plan

During the quarter the Company made contributions of $523 (2021: $421) to various retirement savings and 401(k) plans for its employees (defined contribution plans); year-to-date $985 (2021: $888).

Multi-Employer Pension Plan

During the quarter AFP made contributions of $38 (2021: $69) to the Steel Workers Pension Trust, a multi-employer defined benefit pension plan; year-to-date $104 (2021: $142).

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 and Chief Operating Officer 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.

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	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Segment net sales	**25,839**	56,785	**63,180**	41,860	**26,841**	27,627	**—**	—	**115,860**	126,272
Inter-segment net sales	**(456)**	(1,320)	**(4,857)**	(4,809)	**—**	(1,694)	**—**	—	**(5,313)**	(7,823)
External net sales	**25,383**	55,465	**58,323**	37,051	**26,841**	25,933	**—**	—	**110,547**	118,449
Depreciation, amortization, and impairment	**2,435**	2,369	**1,656**	1,079	**1,338**	1,321	**63**	61	**5,492**	4,830
Segment measure of profit (loss)	**3,621**	17,614	**6,663**	3,686	**(7,502)**	618	**2,186**	(1,834)	**4,968**	20,084
Finance costs									**1,533**	1,134
Income tax expense									**943**	630
Profit									**2,492**	18,320
Segment assets[1]	**213,254**	205,240	**153,803**	146,237	**86,020**	83,292	**9,344**	8,495	**462,421**	443,264
Segment liabilities[1]	**67,039**	69,571	**39,818**	32,115	**20,088**	23,565	**92,040**	82,865	**218,985**	208,116
Capital additions	**260**	584	**1,313**	1,267	**329**	1,014	**253**	190	**2,155**	3,055

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	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Segment net sales	**89,801**	101,847	**119,887**	79,076	**56,681**	59,984	**—**	—	**266,369**	240,907
Inter-segment sales	**(1,402)**	(2,566)	**(9,410)**	(9,753)	**(537)**	(2,810)	**—**	—	**(11,349)**	(15,129)
External net sales	**88,399**	99,281	**110,477**	69,323	**56,144**	57,174	**—**	—	**255,020**	225,778
Depreciation, amortization, and impairment	**4,911**	4,542	**3,279**	2,169	**2,675**	2,661	**124**	121	**10,989**	9,493
Segment measure of profit (loss)	**20,892**	32,542	**11,144**	6,663	**(14,426)**	(2,347)	**1,556**	(7,047)	**19,166**	29,811
Finance costs									**2,485**	1,681
Income tax expense									**4,613**	3,491
Profit									**12,068**	24,639
Segment assets[1]	**213,254**	205,240	**153,803**	146,237	**86,020**	83,292	**9,344**	8,495	**462,421**	443,264
Segment liabilities[1]	**67,039**	69,571	**39,818**	32,115	**20,088**	23,565	**92,040**	82,865	**218,985**	208,116
Capital additions	**882**	5,467	**2,147**	2,184	**736**	4,623	**531**	562	**4,296**	12,836

[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		
	Three-months ended June 30		Six-months ended June 30		June 30		December 31
In thousands of US dollars	**2022**	2021	**2022**	2021	**2022**	2021	2021
Canada	**19,153**	12,678	**35,600**	23,231	**61,660**	60,450	62,278
United States	**76,408**	94,591	**194,657**	176,443	**148,530**	118,186	153,100
Other countries	**14,986**	11,180	**24,763**	26,104	**—**	—	—
	110,547	118,449	**255,020**	225,778	**210,190**	178,636	215,378

Major customers

Net sales to one customer represented approximately 15.3% (2021: 24.9%) of the Company's total net sales. Five customers represented 38.5% (2021: 43.3%) of the Company's total net sales.

Notes to CFS (cont'd)

Major products

In thousands of US dollars	Three-months ended June 30 2022	2021	Six-months ended June 30 2022	2021
AirBoss Defense Group				
Defense	**14,011**	47,802	**66,096**	84,156
Industrial	**11,372**	7,663	**22,303**	15,125
	25,383	55,465	**88,399**	99,281
Rubber Solutions				
Tolling	**3,540**	1,970	**6,860**	4,643
Mixing	**54,783**	35,081	**103,617**	64,680
	58,323	37,051	**110,477**	69,323
Engineered Products	**26,841**	25,933	**56,144**	57,174
Total	**110,547**	118,449	**255,020**	225,778

NOTE 17 RELATED PARTIES

Transactions with Related Parties

During the quarter, the Company paid $42 (2021: $47) to companies controlled by the Chairman of the Company for use of office facilities; year-to-date $85 (2021: $91).

In March 2018, the Company provided a share purchase loan of CAD $500 to the President and Chief Operating Officer that bears interest at 1%. In June 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 that bear interest at 2%. The loan to the Executive Vice President, General Counsel was repaid in May 2022. In April 2022 the Company loaned $1,750 to the CEO of ADG, secured by shares of the Company, bearing interest at 1%. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities, and maturity. All loans are full recourse and interest is due and payable semi-annually. In total, 141,178 shares of the Company having a fair value of $1,701 were pledged as collateral on these loans. At June 30, 2022, the loans receivable of $2,214, including accrued interest, were included in Other Assets on the interim condensed consolidated statement of financial position. During the quarter, interest revenue of $4 (2021: $2) was received; year-to-date $7 (2021: $5).

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