AirBoss® of America Corp.

TRANSFORMING CHALLENGE INTO OPPORTUNITY

2021 ANNUAL REPORT

AirBoss of America Corp.

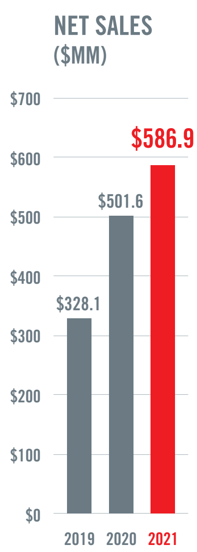
TABLE OF CONTENTS

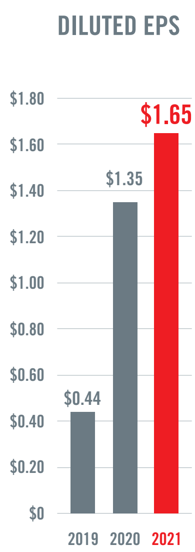
AT A GLANCE

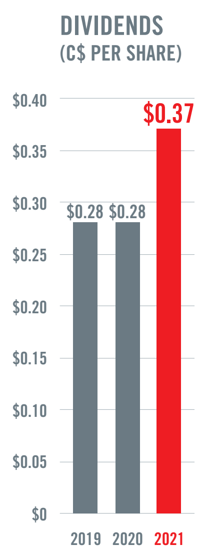
AIRBOSS DELIVERED RECORD NET SALES AND DILUTED EPS IN 2021 BY CONTINUING TO CAREFULLY MANAGE THROUGH THE ONGOING COVID-19 PANDEMIC AND THE ASSOCIATED IMPACTS ON SUPPLY CHAIN AND RAW MATERIAL PRICES, WHILE ALSO COMPLETING TWO ACQUISITIONS THAT ARE EXPECTED TO SUPPORT LONG-TERM VALUE CREATION.

HIGHLIGHTS FOR 2021

- Announced nitrile glove contract valued at up to US$288 million awarded by U.S. Department for Health and Human Services – Office of the Assistant Secretary for Preparedness and Response
- Awarded Specialized Footwear Solutions Contracts by the U.S. Department of Defense valued at up to US$23 million
- AirBoss Defense Group completed acquisition of BlackBox Biometrics, the developer of the Blast Gauge® System
- Received National institute for Occupational Safety and Health approval for AirBoss 100™ Half Mask Respirator
- Completed acquisition of Ace Elastomer expanding AirBoss Rubber Solutions' capabilities in color and specialty compounding and adding to the U.S. footprint with facilities in Rock Hill, SC and Chicago, IL
- Announced commencement of trading on the OTCQX® Best Market in the United States
- Announced new senior secured credit facilities with availability of up to $325 million (up from $110 million in 2020)
- Ended 2021 with record pipeline of $1.5 billion







MESSAGE TO SHAREHOLDERS



IN 2021, AIRBOSS CONTINUED TO BUILD ON ITS MULTI-DECADE HISTORY OF PROFITABILITY, DELIVERING RECORD NET SALES AND DILUTED EARNINGS PER SHARE ALONG WITH AN INCREASED DIVIDEND. WE ACCOMPLISHED THIS BY CONTINUING TO FOCUS ON TRANSFORMING CHALLENGES INTO OPPORTUNITIES, ESPECIALLY AS GOVERNMENTS AND BUSINESSES AROUND THE WORLD BATTLED THROUGH A SECOND YEAR OF THE COVID-19 PANDEMIC. WE ALSO CEMENTED OUR REPUTATION AS A KEY SUPPLIER TO THE U.S. GOVERNMENT BY AGAIN DELIVERING ON A LARGE, HIGH-PROFILE CONTRACT WITH EXTREMELY TIGHT DEADLINES, DESPITE A GLOBAL, PANDEMIC-FUELED SUPPLY CHAIN AND LOGISTICS CALAMITY.

The pandemic has yielded an array of opportunities, particularly for AirBoss Defense Group's ("ADG") healthcare business, as countries around the world struggled to reduce the impact of COVID-19 and are now increasingly turning their attention to future preparedness initiatives. ADG has been at the forefront of the effort to keep healthcare providers safe and performing their vital roles on the frontlines of the pandemic. With COVID-19 beginning to transition to an endemic, much of the buying attention and budget focused on domestic safety is now shifting to the increasingly volatile geopolitical situation globally, with organizations like NATO actively reviewing their defense spending targets. Although ADG did see additional orders for its line of protective footwear in 2021, we expect to see further renewed interest from military and government buyers internationally in the year ahead for our full array of survivability solutions, which includes advanced equipment for chemical and biological threats. The combination of preparedness requirements for personal protective equipment, including gowns offering varying levels of protection, and opportunities for our rubber-based boots, gloves, and masks, as well as the Husky vehicle system, has translated into a $1.5 billion pipeline of opportunities, the largest in our history. We think we can address many of these in the near term and are undertaking the necessary preparations to be able to ramp-up quickly as they are awarded.

This pipeline does not include The Blast Gauge® System, which remains in the early phases of deployment with the United States Special Operations Command, selected U.S. Army units and special tactics teams. We are currently working with the U.S. Department of Defense to advance this mission-critical technology through the procurement process from the prototype to full production phase. Recognizing the significant long-term potential value of a fully commercialized Blast Gauge® System, we completed the acquisition of Black Box Biometrics, Inc. In addition to fully participating in any upside from product sales, we were also able to bring significant technical and engineering capability in house, which will be critical in developing the next generation of solutions with a focus on impulse noise and concussive impact detection and monitoring.

Leveraging our strong balance sheet, we also strengthened and diversified AirBoss Rubber Solutions ("ARS") through the acquisition of Ace Elastomer, Inc. In addition to expanding our geographic reach in the U.S. Southeast and Midwest, we were able to expand our capabilities in the high-value specialty compounding space, which has long been a strategic goal for us. Ace brings specific expertise in the custom mixing of proprietary specialty and colored elastomeric compounds. Together, we are leveraging ARS's enhanced scale to purchase a variety of raw materials more cost effectively, in addition to accessing cross-selling opportunities across two highly complementary customer bases.

AirBoss Engineered Products ("AEP") also faced its share of regularly shifting industry dynamics in 2021 but continues to rise to the challenge. The business worked tirelessly to find ways to help offset dramatically increasing commodity prices for rubber, steel and freight logistics. In 2021, AEP installed new high-efficiency injection presses and a second robotic work cell, with these assets continuing to run at high utilization levels through the balance of the year and into 2022. As a domestic supplier to OEM's and Tier 1 and 2 part-suppliers, AEP worked collaboratively with selected customers to localize the production of key parts previously produced overseas by replicating tooling, securing approvals, and producing key components domestically, ensuring continuity of supply and avoiding costly shutdowns. From a strategic perspective, AEP continued to work on diversifying beyond its core passenger vehicle and light truck offering. Beyond moving to full production on our first part for a manufacturer of premium electric vehicles, AEP has advanced several parts for heavy trucks and military vehicles into the prototyping and on-vehicle testing phases of development. Over the short, medium and longer-term AEP remains focused on deriving an ever growing portion of its revenue from non-automotive sources while negotiating aggressively in ongoing efforts to pass on commodity price increases to its automotive customers.

Right across the organization our teams have worked around the clock, to keep supply chains intact, move both bulk inputs and finished product efficiently and cost effectively, maintain production schedules amid shortages of raw materials and labor, and find solutions to myriad other complex challenges presented by suppliers and customers alike. Over the last few years in particular, our purchasing teams have focused on integrity of supply, building multiple, redundant relationships with raw material suppliers around the globe to help manage rising costs and increasingly sporadic availability. As an organization we have worked closely with customers to more proactively communicate and transmit price increases, where workarounds could not be found, sharing the increased burden we have all experienced during the pandemic. Likewise, our logistics personnel have worked to get raw materials and finished products where they need to be, both domestically and internationally, as quickly as possible despite port and border congestion and reduced carrier capacity. Internally, our human resources teams have focused on ensuring a safe working environment and access to appropriately skilled labor to keep operations running smoothly and production meeting demand. We want to thank all our employees for their foresight, creativity, and hard work in addressing the greatly increased number of challenges experienced across the business in 2021.

AirBoss' improved financial performance and resulting cash flow in recent years has allowed us to significantly strengthen our balance sheet and reduce debt to very modest levels. In September, we closed on $325 million in upgraded credit facilities. With minimal leverage and enhanced access to capital, we believe we are very well positioned to continue to build the business both organically, and through additional acquisitions. As the COVID-19 pandemic continues to evolve, we believe numerous opportunities remain to grow both ARS and ADG through the acquisition of complementary businesses. On the rubber side, we are actively targeting companies like Ace, that add higher margin specialty compounding capabilities, ideally in new markets, with little overlap in the customer base. The creation of ADG saw the birth of a focused survivability platform and we'll continue to look for complementary candidates that broaden the product offering or "bolt on" to existing solutions already on the platform.

In closing, we are both very proud of how AirBoss has performed in the last year, especially in the face of the myriad challenges experienced by organizations around the world. The team we have assembled over the last few years has enabled us to rapidly address challenges and transform them into opportunities, allowing us to create significant value for a full range of stakeholder groups from employees and suppliers to customers and investors. We continue to feel that we are well positioned to succeed in each of our business segments over the longer term and invite you to continue to follow our progress in the quarters and years ahead.

P.G. Schoch
Chairman and CEO

Chris Bitsakakis
President and COO

AirBoss Defense Group ("ADG") is a rapidly growing survivability platform offering a range of personal protective equipment ("PPE") for healthcare settings, mask, boot, glove, shelter and isolation products for industrial and military-grade protection against chemical, biological, radioactivity and nuclear ("CBRN") threats, as well as blast monitoring and route clearance solutions for military personnel on active duty. In 2022, ADG is chasing an opportunity pipeline of US$1.5 billion, the largest in the Company's history.

BLACK BOX BIOMETRICS® ACQUISITION

– TRANSFORMING SURVIVABILITY

In May 2021, ADG completed its acquisition of Black Box Biometrics®, Inc. ("B3"), developer of the revolutionary Blast Gauge® System of lightweight, wearable blast overpressure sensors, which have been outfitted on Special Forces, Army and SWAT units across the U.S.

ADG had previously served as the worldwide distributor for the Blast Gauge® System, however, bringing B3 fully under the ADG umbrella will allow the business to:

- Fully benefit financially from the significant potential of widespread deployment of the Blast Gauge® System across the U.S. and other militaries, as well as to police departments and other first responder groups both domestically and around the world
- Bring in-house the significant technical and engineering capability B3 has built since its inception
- Develop next-generation detection and monitoring solutions including those for impulse noise (e.g. medium calibre firearms) and concussive impact (e.g. fully body contact sports like football, hockey, etc.)

TRANSFORMING THE MODERN BATTLEFIELD

As the world observes the significant effect that shoulder-fired anti-tank and anti-aircraft weapons can have on shaping today's full-spectrum combined arms battlefield, militaries are also considering the user impact of employing those systems at greater rates. Cumulative exposure to the blast overpressure induced by these weapon systems in combat and training has been proven to negatively impact service member health and overall force readiness if not monitored and managed.

The Blast Gauge® System is the operationally-proven solution to help modern militaries manage exposure to safely and effectively employ these critical combat capabilities.

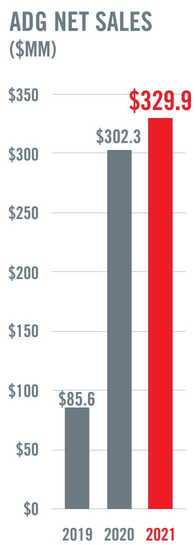
Blast Gauge® is a system of rugged sensors that captures pressure and acceleration data generated in an explosive blast. The devices immediately categorize the exposure, guide real-time triage capability based on blast intensity, and then store or wirelessly transmit the exposure data for detailed post-event analysis. The technology helps identify individuals with blast exposure that could put them at risk for brain injury long before physical and cognitive symptoms arise.

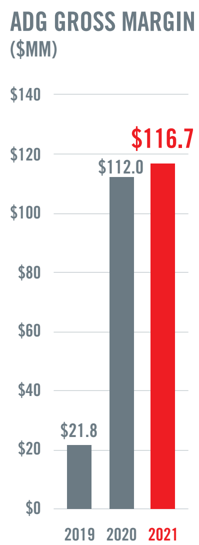
BLAST GAUGE® +

BUILDING A BROAD SURVIVABILITY PLATFORM

In the face of COVID-19, ADG's healthcare business has soared as medical personnel in first response, clinical, long-term care and hospital settings have sought to stay safe while dealing with increased patient loads and higher morbidity levels. ADG remains focused on supplying high quality PPE to protect healthcare workers, especially as governments globally continue to manage COVID-19, while also stockpiling in preparation for potential future incidents. ADG believes there are also multiple opportunities for its existing line of CBRN masks, boots and gloves, the Husky 2G route clearance vehicle and related add-on accessories, as well as for the wider deployment of the Blast Gauge® System.

ADG intends to complement organic growth with strategic acquisitions, looking for opportunities to broaden its survivability platform with new solutions, or those that complement the existing product offering, targeting medical professionals, first responders, special tactics teams and militaries around the globe. Preferred targets would additionally have strong existing government/military relationships internationally, product development and engineering expertise and/or complementary manufacturing capacity.





AirBoss Rubber Solutions ("ARS") is North America's second largest custom compounder with more than 500 million pounds of annual capacity. The Company produces thousands of proprietary compounds for predominantly blue-chip customers in the major tire, off-the-road, industrial, defense, roller, conveyor belting and resource sectors. ARS is increasingly expanding its compounding capabilities with a focus on higher value black rubber, white/colour compounds and specialty, high-performance elastomers.

ACE ELASTOMER ACQUISITION

– TRANSFORMING THE RUBBER BUSINESS

In August 2021, AirBoss acquired Ace Elastomer, Inc., a leading, U.S.-based custom rubber compounder with facilities in Rock Hill, SC and Chicago, IL. In addition to expanding AirBoss' presence in the in the Southeastern states, it also allowed the Company to gain a facility in the Midwest, improving proximity to key markets and customers. Ace provides design, formulation development and custom mixing of proprietary elastomer compounds across the natural and synthetic polymer range, including a variety of custom mix compounds. They are a market leader in rubber rollers, but also serve the belting and printing segments, in addition to offering custom molding and extrusion applications.

The acquisition of Ace dovetails well with ARS's broader strategy of diversifying beyond its core competencies in high-volume black rubber to include value-added colour and specialty compounds often produced in lower volumes. In 2019, AirBoss made an initial investment in both white/colour and tilt mixing lines at its facility in Kitchener, ON. This latest transaction helps further strengthen the business by:

- Expanding ARS' presence in the higher margin colour and specialty compounding markets, including enhanced small-batch processing of high-value compounds
- Presenting new cross-selling opportunities to distinct, but highly complementary, customer bases
- Allowing Ace to leverage ARS' dedicated rubber science and R&D capabilities with a shared focus on developing custom compounds that meet increasingly stringent customer requirements
- Retaining Ace's founder and key members of its team to supplement ARS' established rubber industry expertise and key stakeholder relationships
- Enhancing AirBoss' ability to provide U.S.-based customers with domestically produced color and specialty compounded rubber products
- Realizing operational efficiencies and reducing costs across an expanded business through improved sourcing of raw materials and implementation of enhanced manufacturing and material handling techniques
- Offering an immediate positive impact on EBITDA and earnings per share with the potential for additional revenue and cost synergies in the future

COLLABORATING WITH CUSTOMERS
– TRANSFORMING CHALLENGE INTO OPPORTUNITY

In 2021, AirBoss Rubber Solutions worked with a leading global provider of rubber auto components to advance their strategy to serve the North American market more effectively. The customer had traditionally produced their raw materials at facilities in Germany using proprietary formulations and manufacturing techniques, shipping the compounded rubber to North American markets for processing. With the global pandemic contributing to reduced supply of raw materials and increasingly challenging logistics, the customer knew they had to act to manage costs and continuity of supply.

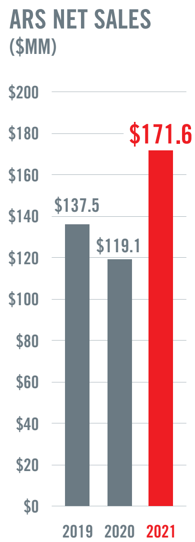
AirBoss Rubber Solutions is increasingly focused on building higher touch, service driven relationships that create value for multiple stakeholder groups. Following extensive consultation, the AirBoss Rubber Solutions team collaborated with the customer to come up with a solution that allowed the two organizations to:

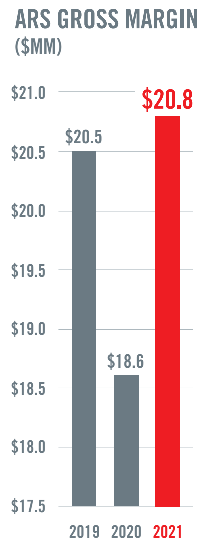
- Jointly source raw materials more cost effectively while ensuring security of supply
- Transfer proprietary manufacturing know-how and formulation information securely, while preserving intellectual property rights and accelerating time to market
- Produce compounds for the North American market domestically using AirBoss' facilities, substantially reducing logistical challenges and minimizing shipping costs
- Deliver high quality product at a reduced cost, with reduced sensitivity to volatile broader market forces

GROWING THE RUBBER BUSINESS OVER THE LONG-TERM

AirBoss remains focused on maintaining its leadership position in high-volume black rubber, while also continuing to grow its capabilities in higher-margin white/colour compounds and specialty, high-performance elastomers. In recent years the business has grown through a combination of capital investment in R&D and new equipment as well as, more recently, strategic acquisition.

Over both the near and longer-term, AirBoss intends to pursue growth using this same strategic roadmap. This includes continuing to push organic growth initiatives that have historically seen the Company grow volumes ahead of industry levels, as well as by leveraging a strong balance sheet and enhanced access to capital to pursue acquisitions that grow the organization's geographic footprint, while also adding industry-leading expertise, customer and supplier relationships and product lines.





As one of the industry's leading custom molders, AirBoss Engineered Products ("AEP") manufactures customized rubber-based products used in noise, vibration and harshness (NVH) reduction applications across the automotive, electric vehicle, heavy truck & off-highway, and defense industries, in addition to industrial and commercial products for non-automotive manufacturers.

TACKLING THE CHALLENGES PRESENTED BY COVID-19

In 2021, businesses around the globe were disrupted by the ongoing COVID-19 pandemic. This translated into significant upward pressure on commodity prices and reduced supply of key inputs, higher labour costs and staffing issues, as well as delays and increased costs associated with transporting both raw materials and finished products regionally, nationally and internationally.

With a significant presence in Auburn Hills, MI, in proximity to a number of major automakers and Tier 1 and 2 part-suppliers, AEP is a domestic partner of choice when it comes to supplying key components quickly. Automakers can't afford shutdowns due to non-availability of components and are increasingly working to localize supplier relationships to avoid many of the supply chain and logistics issues that have plagued the industry through the COVID-19 pandemic. In 2021, AEP worked to address these challenges internally and, in turn, help customers by:

- Introducing value-added engineering solutions to help reduce costs and partially offset raw material price increases
- Working with the ARS material science team to assess and develop higher-performing alternatives to compounds that were in short supply or subject to large price increases (e.g., substituting EPDM for silicone)
- Localizing key parts from overseas by quickly replicating tooling, completing approvals and launching production as an offset to country closures and logistics constraints
- Providing local support to existing customers aimed at re-sourcing parts traditionally supplied from Asia, resulting in multiple new business wins for AEP
- Offering technical support and resources to suppliers experiencing manufacturing issues and/or failure and in some cases cooperatively relocating the business
- Leveraging the investment in new injection presses and a second, state-of-the-art work cell to produce high-volume parts and manage labour costs

SMOOTHING OUT
A HIGH-PERFORMANCE RIDE

AEP was called on by a major domestic automaker to develop and produce an NVH solution for one of their premium, high performance vehicles. With the uprated, optional engine producing in excess of 600 horsepower, the component not only had to be extremely robust, but also meet extremely tight technical specifications for frequency dampening. With the third generation of the vehicle coming to market, AEP had to move very quickly to develop and supply the new component. The AEP team developed a new design and assembly process that allowed the component to be delivered on time, and with the requisite high quality and performance required in this specialist application.

+ MASS DAMPER

DIVERSIFYING THE ENGINEERED PRODUCTS BUSINESS

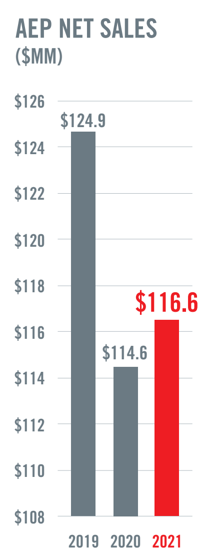
AEP continues to be a leading supplier to the automotive industry with a focus on the passenger automobile and light truck sectors. In 2019, AirBoss began examining ways to diversify its business beyond its traditional core areas of focus and customers, with an eye to developing solutions for military, heavy truck, bus, electric vehicle, construction, agriculture and recreational vehicles.

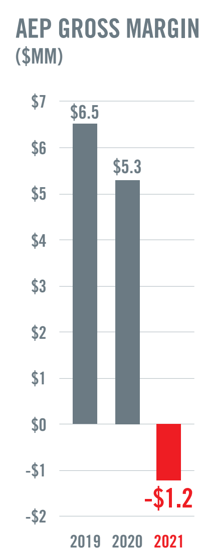
In 2021, AEP delivered commercial quantities of its first hydromount, a hybrid rubber/aluminum/fluid bushing, to a leading electric vehicle manufacturer. The team is also currently prototyping a hydromount for use in isolating the cab of commercial semi trucks. On the defense side, AEP launched a new military vehicle bushing and has two other non-traditional parts in prototyping and on-vehicle testing. AEP is also actively selling the RamGuard reinforced guard for industrial racking, its first non-vehicle product. AEP continues to focus on growing revenue from non-automotive sources over the longer term.

+ RAMGUARD

HYDROBUSHING +

+ TANK PAD





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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of AirBoss of America Corp. ("AirBoss" or the "Company") has been prepared as of March 8, 2022 and should be read in conjunction with the Consolidated Financial Statements and Notes for the year ended December 31, 2021 prepared in accordance with *International Financial Reporting Standards ("IFRS")*. 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 Annual Report is expressly qualified by these cautionary statements. Investors are cautioned not to put undue reliance on forward-looking information. All subsequent written and oral forward-looking information attributable to AirBoss or persons acting on its behalf are expressly qualified in their entirety by this notice. Forward-looking information contained herein is made as of the date of this Interim Report and, whether as a result of new information, future events or otherwise, AirBoss disclaims any intent or obligation to update publicly the forward-looking information except as required by applicable laws. Risks and uncertainties about AirBoss' business are more fully discussed under the heading "Risk Factors" in our most recent Annual Information Form and are otherwise disclosed in our filings with securities regulatory authorities which are available on SEDAR at www.sedar.com.

OVERALL PERFORMANCE

Recent Highlights

(In US dollars)

- Highest quarterly net sales in the Company's history at $249.1 million for the fourth quarter of 2021 ("Q4 2021"), reflecting growth of 88.4% compared to the fourth quarter of 2020 ("Q4 2020");
- Highest annual net sales in the Company's history at $586.9 million, reflecting 17.0% growth compared to 2020;
- Grew diluted EPS by 22.2% to $1.65 for 2021 (2020: $1.35);
- Increased diluted Adjusted EPS[1] by 15.2% to $1.67 in 2021 (2020: $1.45);
- Finished 2021 with a Net Debt to EBITDA ratio1 of 0.70x;
- Declared a quarterly dividend of C$0.10 per common share; and
- Received approval from the National Institute for Occupational Safety and Health ("NIOSH") for its new AirBoss 100™ Half Mask Respirator.

Selected Financial Information

In thousands of US dollars, except share data

For years ended December 31	**2021**	2020	2019
Financial results:			
Net sales	**586,858**	501,572	328,126
Profit	**46,703**	56,262	10,219
Profit attributable to owners of the Company	**46,703**	33,703	10,219
Adjusted Profit attributable to owners of the Company[1]	**47,374**	36,087	10,948
Earnings per share (US$)			
– Basic	**1.73**	1.40	0.44
– Diluted	**1.65**	1.35	0.44
Adjusted earnings per share[1] (US$)			
– Basic	**1.76**	1.50	0.47
– Diluted	**1.67**	1.45	0.47
EBITDA[1]	**79,591**	103,211	32,082
Adjusted EBITDA[1]	**80,341**	105,595	32,196
Net cash from operating activities	**2,023**	104,399	11,706
Free cash flow[1]	**(15,970)**	89,965	(7,775)
Dividends declared per share (CAD$)	**0.37**	0.28	0.28
Capital additions	**22,585**	15,606	26,700
Financial position:			
Total assets	**443,264**	367,369	249,664
Term loan and other debt[2]	**80,563**	90,734	74,144
Net Debt	**56,033**	(9,718)	59,481
Shareholders' equity	**235,148**	194,588	125,979
Outstanding shares*	**26,993,181**	26,908,802	23,392,442
**26,993,181 at March 8, 20*			

[1]See Non-IFRS and Other Financial Measures

[2]Term loan and other debt includes $17,399 of lease liabilities (2020: $13,482; 2019: $14,542)

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.

In thousands of US dollars	**2021**	2020	2019
EBITDA:			
Profit	**46,703**	56,262	10,219
Finance costs	**4,178**	3,368	3,831
Depreciation, amortization, and impairment	**20,881**	21,014	13,716
Income tax expense	**7,829**	22,567	4,316
EBITDA	**79,591**	103,211	32,082
Acquisition fees	**445**	2,384	1,401
Prospectus fees	**305**	–	–
Insurance provision	**–**	–	(1,287)
Adjusted EBITDA	**80,341**	105,595	32,196

Adjusted profit attributable to owners of the Company 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 attributable to owners of the Company to Adjusted profit attributable to owners of the Company and Adjusted earnings per share is below.

In thousands of US dollars	**2021**	2020	2019
Adjusted profit attributable to owners of the Company:			
Profit attributable to owners of the Company	**46,703**	33,703	10,219
Acquisition fees	**445**	2,384	1,401
Prospectus fees	**226**	–	–
Insurance provision	**–**	–	(672)
Adjusted profit attributable to owners of the Company	**47,374**	36,087	10,948
Basic weighted average number of shares outstanding	**26,970**	24,032	23,392
Diluted weighted average number of shares outstanding	**28,298**	24,901	23,445
Adjusted earnings per share (in US dollars):			
Basic	**1.76**	1.50	0.47
Diluted	**1.67**	1.45	0.47

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	**2021**	2020	2019
Net debt:			
Loans and borrowings - current	**2,356**	27,083	5,358
Loans and borrowings - non-current	**78,207**	63,651	68,786
Leases included in loans and borrowings	**(17,399)**	(13,482)	(14,542)
Cash and cash equivalent	**(7,13)**	(86,970)	(121)
Net debt	**56,033**	(9,718)	59,481

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.

In thousands of US dollars	**2021**	2020	2019
Free cash flow:			
Net cash provided by operating activities	**2,023**	104,399	11,706
Acquisition of property, plant and equipment	**(16,912)**	(14,215)	(17,261)
Acquisition of intangible assets	**(1,081)**	(719)	(2,220)
Proceeds from government grant	**–**	500	–
Free cash flow	**(15,970)**	89,965	(7,775)
Basic weighted average number of shares outstanding	**26,970**	24,032	23,392
Diluted weighted average number of shares outstanding	**26,970**	24,901	23,392
Free cash flow per share (in US dollars):			
Basic	**(0.59)**	3.74	(0.33)
Diluted	**(0.59)**	3.61	(0.33)

OVERVIEW

This was another transformative year for AirBoss as it completed two key acquisitions, Blackbox Biometrics, Inc. ("B3") and Ace Elastomer, LLC ("Ace"), continuing the strategic plan to position itself as a strong player in each segment that it competes in. In 2021, AirBoss continued to demonstrate its resilience in the face of the significant and extensive obstacles associated with COVID-19 including significant supply challenges and record raw material price increases. Despite these ongoing challenges, AirBoss continued to take the necessary steps, including risk mitigation plans 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 while providing a safe work environment for its employees. The Company's continued focus on supporting its customers, employees and stakeholders resulted in the highest sales and EPS in the company's history along with its second highest EBITDA. Although the timing for continued recovery in volumes is difficult to predict and will be subject, at least in part, to a stable and sustained re-opening of businesses globally and specifically in North America, management believes the Company is positioned for another strong performance in 2022, including a record pipeline of over $1.5 billion, the largest in the Company's history.

While this past year had many obstacles and challenges, AirBoss was able to continue to take advantage of opportunities which supported its strong trajectory. The Company's strong results were driven by continued 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). Continued execution under this contract provided a strong financial backdrop to offset raw material, logistics and labor challenges faced by the Rubber Solutions and Engineered Products segments and allowed those segments to experience progressive recoveries in volume in the latter part of the year.

In addition to the acquisitions completed in 2021, and despite the disruptions noted above, AirBoss continued its capital investment in support of longer-term growth with investments in a series of key initiatives across the business with a strategic focus on productivity, innovation and diversification. Capital expenditures for 2021 were $16.9 million dollars (excluding leases) and are expected to remain strong as AirBoss continues to invest in its future at a rate well above historical levels.

For the Rubber Solutions segment, investment continued to build from the record capital spend in 2019 with the successful implementation of the bulk material handling and delivery system in Scotland Neck, North Carolina. Development and sales in colored rubber continued to grow throughout the year in line with the margin expansion strategy with new customers accelerated by the Ace acquisition and continued development of new proprietary compounds and continuous improvement of existing compounds. The continued focus on integrating operational excellence supported by Ace'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. The Company also continued to make inroads in utilization of the "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. In Kitchener, AirBoss continued to invest in its R&D expertise and lab capital to support enhanced collaboration with customers and better reflect the Company's focus on innovative R&D and proprietary technical solutions.

Within the Engineered Products segment, 2021 was a transformative year despite the continued impact of record raw material increases, significant supply chain challenges and electronic chip shortages as original equipment manufacturers ("OEMs") continued to shutter production, with vehicle inventories at record lows while demand remains very strong. The segment continued to focus on its operational improvement plan including managing variable costs and focusing on sustaining a stable hourly workforce, while dealing with the volume reductions in the automotive sector and specifically on AirBoss' products for SUV, light truck and mini-van platforms. Global supply chain challenges also added to logistical challenges associated with the supply of certain steel and molded products. Despite these challenges, the Company continued its focus and commitment to drive efficiencies and best-in-class automation including completing the installation of 22 new injection presses as part of a multi-year investment, and the addition of a second state of the art automated work cell. The segment also continued its focus on diversification of its product lines into sectors adjacent to the automotive space. Management remains committed to continuing to address key challenges in the anti-vibration business, focusing on margin improvement with targeted cost management, improved pricing strategies with raw material indexing and investments in advanced manufacturing.

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

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

1. Growing the core Rubber Solutions segment by positioning it as a specialty supplier of choice in the consolidating North American market, with a growing focus on building defensible leadership positions in selected compounds;
2. Capitalizing on AirBoss Defense Group'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.

AirBoss continues to generate meaningful returns to shareholders with 15 years of dividend payments growing at an average annual rate of 15%, while driving improved profitability and simultaneously investing in core areas of the business to expand a solid foundation that will support long-term growth.

RESULTS OF OPERATIONS – For year ended December 31, 2021 compared to 2020

NET SALES

Consolidated net sales for the year ended December 31, 2021 increased by 17.0% to $586,858, compared with 2020 primarily due to the HHS nitrile patient examination glove contract, supported by a significant recovery in volumes at the Rubber Solutions and Engineered Products segments, despite continued pandemic and logistics challenges.

In thousands of US dollars		AirBoss Defense Group	Rubber Solutions	Engineered Products	Inter-segment net sales	Total
Net Sales	**2021**	**329,916**	**171,553**	**116,621**	**(31,232)**	**586,858**
	2020	302,278	119,090	114,557	(34,353)	501,572
Increase (decrease) $		27,638	52,463	2,064	3,121	85,286
Increase (decrease) %		9.1	44.1	1.8	(9.1)	17.0

AirBoss Defense Group

Net sales in the AirBoss Defense Group segment increased by 9.1% to $329,916, from $302,278 in 2020. The increase was primarily the result of continued delivery under the nitrile patient examination glove contract from HHS, as part of the U.S. government's response to the COVID-19 pandemic.

Rubber Solutions

Net sales for the year ended December 31, 2021 increased by 44.1%, to $171,553, from $119,090 in 2020. Volume was up 19.6% with increases across the majority of sectors despite residual disruptions due to supply chain issues and some softness due to the COVID-19 pandemic.

Tolling volumes for the year ended December 31, 2021 increased by 6.2%, compared with 2020. Non-tolling volumes for the year ended December 31, 2021 increased by 23.1% compared with 2020. The increase in volume was across the majority of sectors with strong increases in Mining, Oil & gas, and conveyor belt applications.

Engineered Products

Net sales in the Engineered Products segment increased by 1.8%, to $116,621, from $114,557 in 2020. The increase was due to stronger volumes in the SUV, light truck and mini-van platforms compared to the same period in the prior year, in addition to continued production of certain molded defense products. Compared to the same period of 2020, volume and sales improved early in the year, then softened as the automotive sector continued to manage volume volatility given the challenges with the global electronic chip shortages combined with raw material shortages in addition to freight and logistics constraints. This softness is anticipated to continue in the foreseeable future.

GROSS PROFIT

For the year ended December 31, 2021, consolidated gross profit was up by $376 to $136,298. Gross profit as a percentage of net sales decreased to 23.2% from 27.1% in 2020. The decrease was heavily driven by mix at AirBoss Defense Group, specifically on the large nitrile glove deliveries in 2021 compared to the PAPRs, filters and accessories substantially delivered in 2020. Gross profit was furthered impacted at the Rubber Solutions and Engineered Products segments by raw material increases, in addition to the freight and logistics challenges experienced across all segments.

In thousands of US dollars		AirBoss Defense Group	Rubber Solutions	Engineered Products	Total
Gross Profit	**2021**	**116,658**	**20,836**	**(1,196)**	**136,298**
	2020	112,033	18,552	5,337	135,922
Increase (decrease) $		4,625	2,284	(6,533)	376
% net of sales	**2021**	**35.4**	**12.1**	**(1.0)**	**23.2**
	2020	37.1	15.6	4.7	27.1

AirBoss Defense Group

Gross profit at AirBoss Defense Group for the year ended December 31, 2021 was $116,658 (35.4% of net sales), up $4,625 compared with $112,033 (37.1% of net sales) in 2020. The increase was primarily the result of the large contract from HHS partly offset by the reduction of government-directed wage subsidies compared to 2020.

Rubber Solutions

For the year ended December 31, 2021, gross profit for Rubber Solutions was $20,836 (12.1% of net sales), up $2,284 compared to $18,552 (15.6% of net sales) in 2020. The increase was primarily as a result of increased tolling and non-tolling volumes compared to 2020, managing and reducing the impact of Covid-related disruptions and managing controllable overhead costs, partially offset by higher raw material, labor and logistics costs and a decrease in government-directed subsidies.

Engineered Products

Gross profit for the year ended December 31, 2021 in the Engineered Products segment was $(1,196), down $6,533 compared with $5,337 in 2020. The decrease was primarily a result of significant raw material price increases in addition to freight, logistics and labor constraints, partially offset by a continued focus on controllable operational cost containment and PPP loan forgiveness. This was further impacted by volatility in the automotive sector volumes in part due to the global electronic chip shortages.

OPERATING EXPENSES

Consolidated operating expenses for the year ended December 31, 2021 increased by $23,863 to $77,588 compared with 2020. The increase was primarily due to higher stock based compensation expenses, higher selling and administrative costs including the integration of the B3 and Ace, amortization of B3's and Ace's intangible assets, and a decrease in government-directed subsidies partially offset by lower transaction costs and impairment charges. As a percentage of net sales, operating expenses for the year ended December 31, 2021 increased to 13.2% from 10.7% in 2020.

In thousands of US dollars		AirBoss Defense Group	Rubber Solutions	Engineered Products	Corporate	Total
Operating Expenses	**2021**	**41,660**	**9,711**	**10,033**	**16,184**	**77,588**
	2020	24,187	7,100	12,503	9,935	53,725
Increase (decrease) $		17,473	2,611	(2,470)	6,249	23,863
% net of sales	**2021**	**12.6**	**5.7**	**8.6**	**N/A**	**13.2**
	2020	8.0	6.0	10.9	N/A	10.7

AirBoss Defense Group

AirBoss Defense Group's operating expenses for the year ended December 31, 2021 increased by 72.2% to $41,660. The increase was primarily due to higher selling costs, higher administrative costs in part due to the addition of B3, amortization of B3's intangible assets, and lower government-directed wage subsidies partially offset by an impairment charge in 2020.

Rubber Solutions

Rubber Solutions' operating expenses for the year ended December 31, 2021 increased by 36.8%, to $9,711, compared with $7,100 in 2020. The increase was primarily due to higher administration costs including the acquisition of Ace, amortization of Ace's intangible assets, and lower government-directed wage subsidies.

Engineered Products

Engineered Product's operating expenses for the year ended December 31, 2021 decreased by 19.8% to $10,033. The decrease was due to lower administration costs, government-directed subsidies and an impairment charge in 2020.

Unallocated Corporate Costs

Unallocated corporate costs for the year ended December 31, 2021 increased by $6,249 from 2020. The increase was principally due to increased stock based compensation expenses and lower government-directed wage subsidies partially offset by a lower foreign exchange loss and transaction costs in 2020.

FINANCE COST

Finance costs in 2021 were $4,178 (2020: $3,368). The increase was primarily due to borrowing to acquire nitrile patient examination glove inventory to fulfill a contract for HHS. The increase was partially offset by lower losses on the interest rate swap and a $289 adjustment to the provision for the payment owing to former shareholders of an acquired business.

INCOME TAX EXPENSE

For the year ended December 31, 2021, the Company recorded an income tax expense of $7,829 (2020: $22,567) or an effective income tax rate of 14.4% (28.6% in 2020). The effective tax rate decreased due to the recognition of temporary differences not previously recognized.

	Tax expense		Rate	
In thousands of US dollars	**2021**	2020	**2021**	2020
Expected statutory rate	**14,452**	20,889	**26.50%**	26.50%
Foreign rate differential	**(1,377)**	(890)	**(2.53%)**	(1.31%)
Effect of permanent differences	**(1,124)**	374	**(2.06%)**	0.47%
Change in tax rates and new legislation	**(199)**	(186)	**(0.36%)**	(0.24%)
Filing differences	**(543)**	3	**(1.00%)**	0.00%
Deductible temporary differences not recognized	**(3,464)**	2,367	**(6.35%)**	3.00%
Other	**84**	10	**0.15%**	0.01%
Effective tax rate	**7,829**	22,567	**14.35%**	28.61%

NET INCOME AND EARNINGS PER SHARE

Net income in 2021 amounted to $46,703, compared with $56,262 in 2020. The basic and fully diluted net earnings per share were $1.73 (2020: $1.40) and $1.65 (2020: $1.35) based on basic and fully diluted shares outstanding of 26,970,429 (2020: 24,031,845) and 28,297,939 (2020: 24,900,755), respectively. The increase in earnings per share despite the decrease in net income is due to owning 100% of AirBoss Defense Group for the full year compared to owning 55% for 10 months of 2020.

QUARTERLY INFORMATION

In thousands of US dollars			Earnings (loss) per share	
Quarter Ended	Net Sales	Profit (loss)	Basic	Diluted
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
March 31, 2020	94,197	(520)	(0.02)	(0.02)

Fourth Quarter 2021 Results

NET SALES

Consolidated net sales for Q4 2021 increased by 88.4% to $249,053, from $132,180 in Q4 2020, with increases in AirBoss Defense Group and the Rubber Solutions segments partially offset by decreases in the Engineered Products segment, for the reasons outlined below.

AirBoss Defense Group

AirBoss Defense Group's net sales for Q4 2021 increased by 129.1% to $175,890 compared with Q4 2020. The increase was primarily the result of continued delivery under the nitrile patient examination gloves contract from HHS, as part of the U.S. government's response to the COVID-19 pandemic.

Rubber Solutions

Net sales for Q4 2021 in the Rubber Solutions segment increased 65.8% to $52,616, from $31,728 in Q4 2020. Tolling volume was down 20.3%, while non-tolling volume was up 18.8% driven by increases in most sectors. 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.

The increase in net sales for Q4 2021 was primarily in the conveyor belt, mining, OTR/retread, industrial and oil & gas sectors.

Engineered Products

Engineered Products net sales for Q4 2021 decreased by 14.6% to $28,309 compared with Q4 2020. The decrease was across several automotive product lines due the electronic chip shortages and in particular the muffler hangers, bushings, and spring insulator product lines.

GROSS PROFIT

Consolidated gross profit for Q4 2021 increased to $51,444 (20.7% of net sales) from $40,255 (30.5% of net sales) in Q4 2020, with increases in AirBoss Defense Group and in the Rubber Solutions segment offset by a decrease in the Engineered Products segment.

AirBoss Defense Group

AirBoss Defense Group's gross profit for Q4 2021 increased by $11,810 to $47,824 compared with Q4 2020.The increase was primarily due to higher volume associated with new business awards specifically the nitrile patient examination gloves contract from HHS, partially offset by a reduction in government-directed wage subsidies which were not received in Q4 2021.

Rubber Solutions

Gross profit at Rubber Solutions for Q4 2021 was $5,869 (11.2% of net sales), compared with $3,873 (12.2% of net sales) in Q4 2020. The increase in gross profit was principally due to higher volume and mix partially offset by a reduction in government-directed wage subsidies which were not received in Q4 2021.

Engineered Products

Gross profit at Engineered Products for Q4 2021 decreased by $2,617 to $(2,249) compared with $368 in Q4 2020. The decrease was primarily a result of mix, and volume in the automotive sector due to the electronic chip shortage, along with increased raw material costs for steel and molded products, partially offset by operational cost containment, and managing overhead costs.

OPERATING EXPENSES

Consolidated operating expenses for Q4 2021 increased by $19,589, compared with Q4 2020. The increase was primarily due to higher selling costs, higher stock based compensation expenses, B3 and Ace operating expenses stemming from the 2021 acquisitions, amortization of B3's and Ace's intangible assets, a decrease in government-directed subsidies and a foreign exchange gain in 2020. As a percentage of net sales, operating expenses in Q4 2021 were higher than Q4 2020.

INCOME TAX EXPENSE

Tax expense for Q4 2021 decreased by $3,713 compared to Q4 2020. Income tax expense decreased due to lower pre-tax income.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its 2022 operating cash requirements, including required working capital investments, capital expenditures and scheduled debt repayments from cash on hand, cash flow from operations and committed borrowing capacity. The Company's operating revolving loan facility provides financing up to $250,000 (2020: $60,000). As at December 31, 2021, $65,713 was drawn against the credit facility.

For the period ended December 31, 2021, $2,023 of cash was provided by operations (2020: $104,399 cash consumed), $64,559 was used for investing activities (2020: $8,545) and $17,526 was used in financing activities (2020: $9,586). Cash and cash equivalents decreased by $79,839 from $86,970 to $7,131, adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

For the year ended December 31, 2021, cash provided by operating activities decreased by $102,376 compared to 2020. The decrease was due to a $9,559 decrease in profit, lower non-cash expenses of $11,538, a $93,722 increase in cash consumed by net working capital and higher interest payments of $813. The decreases were partially offset by decreased tax payments of $13,256.

Cash consumed by working capital for the year ended December 31, 2021 was $65,546 (2020: provided $28,176) as a result of the following factors:

- Cash used for accounts receivable was $12,074 due to increased sales at the Rubber Solutions segment;
- Cash used for Inventory was $74,376, primarily related to AirBoss Defense Group's contract to deliver nitrile gloves to HHS, and at the Rubber Solutions and Engineered Products segments for raw material safety stock;
- Cash used for prepaid expenses was $3,065 primarily for shipping costs to deliver nitrile gloves for AirBoss Defense Group's HHS contract;
- Cash from accounts payable was $25,038 due to increased inventory purchases and extending payment terms with suppliers.

Investing Activities

Property, Plant and Equipment

For the year ended December 31, 2021, the following investments were made in each segment:

AirBoss Defense Group invested $4,081, of which $1,288 was spent on growth initiatives, $2,624 to upgrade existing property, plant and equipment, and the balance on cost savings initiatives.

Rubber Solutions invested $6,130, of which $2,776 was spent on growth initiatives, $2,602 to upgrade existing property, plant and equipment, and the balance on cost savings initiatives.

Engineered Products invested $6,701, of which $2,257 was spent on growth initiatives, $4,206 on cost savings initiatives, and the balance to upgrade existing property, plant and equipment.

Intangible assets

The Company invested $1,081 on rolling out company-wide enterprise 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.

In April 2021 the Company's credit facility was amended to increase the revolving facility from $60 million to $150 million. The credit facility includes terms to replace LIBOR with a suitable replacement as that issue develops. The replacement of LIBOR is not expected to have an impact on the consolidated financial statements.

In January 2020 the Company signed an amended and restated credit agreement in connection with the merger between AirBoss' defense business and Critical Solutions International, Inc. The amended and restated credit agreement was scheduled to mature in January 2023 and otherwise carried similar terms as the existing credit agreement.

Deferred financing fees, less accumulated amortization have been deducted against the term loan for presentation purposes.

The fees are being amortized over the term of the credit facilities and $324 (2020: $614) has been amortized and is included in finance costs.

Interest expense under the credit facility was $3,817 (2020: $1,439).

Commitments and contractual obligations

The Company's contractual obligations as at December 31, 2021 are summarized below:

	Payments Due In						
	2022	**2023**	**2024**	**2025**	**2026**	**Thereafter**	**Total**
Revolving line of credit	0	–	–	–	64,952	–	64,952
Lease liabilities	2,356	2,271	2,168	2,152	2,256	6,196	17,399
Purchase obligations	32,015	–	–	–	–	–	32,015
Total	34,371	2,271	2,168	2,152	67,208	6,196	114,366

Government assistance

During 2020, Rubber Solutions recognized a grant of $500 as a reduction of capital assets.

Scientific research and investment tax credits of $813 were recognized in 2021 (2020: $1,177); research and development costs were reduced accordingly.

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 a result of COVID-19. The Company recorded the subsidy as a reduction to cost of sales and operating expenses in the consolidated statement of profit.

Dividends

A quarterly dividend of $0.10 per share was declared on November 9, 2021 and paid on January 17, 2022. Total dividends declared during the year were $0.37 per common share compared to $0.28 per common share in 2020.

Outstanding shares

As at December 31, 2021 the Company had 26,993,181 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

During the year, the Company paid rent for the corporate office of CAD $180 (2020: CAD $180) to a company controlled by the CEO and Chairman of the Company.

During the year, the Company paid fees for the use of a facility in South Carolina of approximately $28 (2020: $29) to a company in which the CEO and Chairman is an officer.

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management includes directors, CEO, President and COO, CFO, and senior management. The compensation expense to key management for employee services is shown below:

December 31 *In thousands of US dollars*	**2021**	2020
Salaries and other short-term benefits	**6,297**	4,840
Share-based payment expense	**8,332**	2,200
	14,629	7,040

The amounts disclosed in this table are the amounts recognized as operating expenses for accounting purposes during the period and do not necessarily represent amounts receivable or received in cash.

Key management own 21.0% of the outstanding common shares as at December 31, 2021 (2020: 20.5%).

In December 2016, the Company provided a share purchase loan of CAD $250 to the former Chief Financial Officer that was repaid in June 2020. In March 2018, the Company provided a share purchase loan of CAD $500 to the President and Chief Operating Officer. On June 28, 2019, the Company provided share purchase loans of CAD $300 to the Executive Vice President, General Counsel; and CAD $92 to the President and Chief Operating Officer. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities, or the fifth anniversary of the issuance date. All share purchase loans issued prior to 2019 bear interest at 1% annually and all subsequent loans share purchase loans bear interest at 2% annually. In all cases, loans are full recourse and interest is due and payable semi-annually. In total, 86,807 shares of the Company having a fair value of $3,165 were pledged as collateral on these loans. At December 31, 2021, the loan receivables of $710, including accrued interest, were included in Other Assets on the statement of financial position. During the year, interest revenue of $7 (2020: $15) was received.

NEW STANDARDS ADOPTED

Amendments to IAS 1, *Presentation of Financial Statements*

The amendments clarify the classification of liabilities as current or non-current. For the purposes of non-current classification, the amendments remove the requirement for a right to defer settlement of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period in order to qualify for non-current classification. The amendment did not have a material impact on the consolidated financial statements.

Amendments to IFRS 9, *Financial Instruments and IFRS 7, Financial Instruments: Disclosures*

Under the amendments a company will not have to derecognize the carrying amount of financial instruments for changes required by the ongoing reform of inter-bank offered rates and other interest rate benchmarks, but change the effective interest rate to reflect the new benchmark rate. The amendment did not have a material impact on the consolidated financial statements.

FUTURE ACCOUNTING STANDARDS

Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*

The amendment specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to the contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling that contract. The amendment is effective on January 1, 2022 and is to be applied prospectively. The adoption of the amendment is not expected to have a material impact on the consolidated financial statements.

Amendments to IAS 1, *Presentation of Financial Statements*

The first amendment serves to address whether debt and other liabilities with an uncertain settlement date should be classified as current or non-current in the Consolidated Balance Sheets. The second amendments will help companies provide useful accounting policy disclosures. Both amendments are effective on January 1, 2023 and the Company is assessing the impact of adopting these amendments on its consolidated financial statements.

Amendments to IAS 12, Income Taxes

The amendments narrow the scope of the recognition exemption so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and the Company is assessing the impact of adopting these amendments on its consolidated financial statements.

Amendments to IAS 8, Definition of Accounting Estimates

The amendments will require the disclosure of material accounting policy information rather than disclosing significant accounting policies and clarifies how to distinguish changes in accounting policies from changes in accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023 and the Company is assessing the impact of adopting these amendments on its consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

The Company's preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses. The Company's estimates are based upon historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of the Company's ongoing evaluation of these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amounts for net sales and expenses. Actual results may differ from these estimates under different assumptions. These estimates and assumptions are affected by management's application of accounting policies.

The Company's critical accounting policies are those that affect our Consolidated Financial Statements materially and involve a significant level of judgment by the Company. A summary of the significant accounting policies, including critical accounting policies, is set forth in Note 3 to the Consolidated Financial Statements. The Company's critical accounting estimates include valuation of accounts receivable and inventory, valuation of goodwill and other long-lived assets, accounting for income taxes, and government assistance.

Valuation of Accounts receivable

As at December 31, 2021, AirBoss Defense Group recorded a $252 allowance for impairment and the Rubber Solutions segment recorded a $349 allowance for impairment.

Valuation of inventory

The majority of the Company's products are manufactured against orders and inventory on hand is primarily raw materials or finished goods awaiting shipment or customer release.

A provision for obsolete inventory is established based on materials on hand that can no longer be used for customer orders based on a review of historical and forecasted sales, as well as a technical review to see if such materials can be reworked.

Management reviews the carrying cost of its inventory to ensure it is measured at the lower of cost and net realizable value by examining current replacement cost and the quoted pricing to customers over the estimated time frame to consume the inventory on hand and irrevocable commitments.

The Company's provision for obsolete inventory and the write-down of inventory to net realizable value may require an adjustment should any of the above factors change.

At December 31, 2021, a reserve for impaired inventory in the Rubber Solutions segment represents $832 (2020: $1,219). AirBoss Defense Group maintains a provision of $7,101 (2020: $5,048) and the Engineered Products segment maintains a provision of $498 (2020: $190).

Valuation of Goodwill

The Company reviews and evaluates goodwill for impairment when an indicator of impairment exists in the associated cash generating units, but at least on an annual basis. In determining whether impairment has occurred in one of the Company's cash generating units, management compares the cash generating unit's carrying value to its recoverable amount based on value in use. Value in use was determined by the future cash flows generated from the continuing use of the unit. The calculations are most sensitive to the discount rate and growth rate. Determination of growth rate is based on a number of assumptions arising from the most current financial performance of each cash generating unit, the upcoming annual budget for each reporting unit and the historical variability of earnings. Other factors, such as any foreign exchange volatility and volatility in world markets for rubber and carbon black can also materially alter our expectations. Accordingly, management's judgment is required to determine whether these factors at any one point in time and in light of business initiatives, suggest a major change, positive or negative, to the prospects of the business and, therefore, to the valuation of goodwill. No impairment charge was required in 2021 or 2020.

Other Long-lived Assets

The Company reviews and evaluates long-lived assets for impairment when events or changes in economic and other circumstances indicate that the carrying value of such assets may not be fully recoverable. The net recoverable value of an asset, or cash generating unit, is calculated as the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. Future net cash flows are developed using assumptions that reflect the planned course of action for an asset given management's best estimate of the most probable set of economic conditions. Inherent in these assumptions are significant risks and uncertainties. In the view of management, there are no indicators of impairment based on assumptions which they believe to be reasonable and no impairment charge was recorded in 2021. In 2020, the Company determined that certain product development costs for predecessor products would no longer form part of AirBoss Defense Group's survivability platform and the Company recorded an impairment loss of $2,007. In addition the Company recorded an impairment loss of $820 on fixed assets no longer in use.

Accounting for Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the Consolidated Financial Statements. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and future tax liabilities and assets for the future tax consequences of events that have been recognized in the Consolidated Financial Statements or tax returns. In determining both the current and deferred components of income taxes, the Company interprets tax legislation in a variety of jurisdictions, as well as makes assumptions about the expected timing of the reversal of deferred tax assets and liabilities and recognition of deferred tax assets is based on a probable criteria. If its interpretations differ from those of tax authorities or if the timing of reversals is not as anticipated, the provision or relief for income taxes could increase or decrease in future periods. Additional information regarding our accounting for income taxes is contained in Note 18 to the Consolidated Financial Statements. Deferred tax assets have been recorded relating to loss carry-forward amounts when management believes it is more likely than not that these will be used before expiration.

Government Assistance

Management evaluates its best estimates of the amount of government assistance receivable at each reporting date as an offset against the related expense or capital expenditure, under the terms of agreements or based on its interpretation of existing government programs. If its interpretations differ from those of the relevant tax authorities or program administrators, the amount recoverable may increase or decrease in future periods.

FINANCIAL INSTRUMENTS

Foreign exchange hedge

At December 31, 2021, the Company had contracts to sell USD $16,617 from January 2022 to September 2022 for Canadian dollars ("CAD") $21,000. The fair value of these contracts, representing an unrealized loss of $53, are included in trade and other payables, including derivatives on the statement of financial position. The unrealized changes in fair value, representing a loss of $673 (2020: gain of $362), are recorded on the statement of profit as other income (expense).

Interest rate swap

In December 2020, the Company entered into an interest rate swap agreement for a notional amount of $28,125 ($26,250 as at December 31, 2021) amortizing down to $24,375 at maturity on January 1, 2023. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 0.265%. This swap agreement replaces an old swap agreement that matured in December 2020 that calculated interest based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%.

During 2021, interest expense on the swap agreements was $44 (2020: $264).

At December 31, 2021, the fair value of this agreement, representing a gain of $48 (2020: loss of $57), is included in loans and borrowings on the statement of financial position. The change in the fair value, representing a gain of $105 (2020: loss of $37), is recorded on the statement of profit as finance costs.

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

RISK FACTORS

Impact of Economic Cycle

The demand for the Company's products can vary in accordance with general economic cycles and the economic conditions of the industry sectors that are served by the Company. In addition, a number of such industry sectors are cyclical in nature. The Company is particularly sensitive to trends in the defense, automotive, tire, energy generation, construction, mining and transportation industries because these industries are significant markets for the Company's business and are highly cyclical. In a severe economic slowdown, prices for coal, copper and other mined materials may fall, affecting demand for conveyor belting, off-road retread tires and other rubber products manufactured by our customers from rubber compounds manufactured by the Rubber Solutions segment. At AirBoss Defense Group, the timing and size of orders from government defense departments worldwide is highly dependent on the political climate in the applicable jurisdiction, the broader geopolitical climate and their impact on defense budgeting and spending and a significant decline in defense budget and spending from current levels could have a material adverse effect on the profitability of AirBoss Defense Group. The global automotive industry is also cyclical, with the potential for regional differences in timing of expansion and contraction. A significant decline in automobile production volumes for the North American market from current levels could have a material adverse effect on the profitability of our Engineered Products segment.

Political Uncertainty and Policy Change

Certain of the business sectors in which we and our customers operate, particularly in the AirBoss Defense Group and Engineered Products segments, are highly globalized industries. Election of protectionist governments or implementation of protectionist trade policies could negatively impact the movement of goods, services and people across borders, including within North America. Uncertainty created by rapidly changing political circumstances may impact our ability to plan effectively for our businesses over the short- and medium-terms, until such time as policy changes or new laws, if any, are implemented. For example, such uncertainty may affect plans relating to establishing operations in new locations (directly or through joint ventures) or potential acquisitions. A material variation between our planning assumptions and actual outcomes could have a material adverse effect on our profitability and financial condition.

Raw Materials and Inventory

The Company depends on various outside sources of supply for raw materials used in the production of its products, the price and availability of which are subject to market conditions. As a result, any shortage of such raw materials could potentially delay delivery of our products or supplies, increase our costs and decrease our profitability. The Company maintains multiple supply sources in different areas of the world to mitigate the risk of shortages or price increases experienced in certain, but not all, markets. However, there can be no assurance that such multiple supply sources can be maintained in the future and multiple sources cannot overcome a global shortage in a particular raw material, should one occur.

Historically, raw material markets have been extremely volatile with key materials doubling or halving in price within a relatively short period, and the Company does not expect such volatility to cease. Excess inventory or shortages of raw material could prove costly to the Company in these markets.

The Company does not have long-term supply contracts with the majority of its suppliers and purchases most raw materials on a purchase order basis. The price of many raw materials, such as carbon black, synthetic and natural rubber, chemicals for rubber mixing, steel and silicone is directly or indirectly affected by factors such as exchange rates and the price of oil and, in the case of natural rubber, weather conditions that impact harvest seasons. Although the Company attempts to pass price changes in raw materials on to its customers, it may not always be able to adjust its prices, especially in the short-term, to recover the costs of increased raw material prices. Conversely, if raw material prices decrease significantly and rapidly, the Company may be at risk to recover the cost of any inventory purchased based on demand at higher prices.

The following table approximates the financial impact (assuming changes are not passed along to its customers) on the Company of a 10% increase in the cost of its most critical raw materials based upon purchases made in the respective years:

	Earnings before tax	
in millions of US dollars	**2021**	2020
Natural and synthetic rubber	**(7.27)**	(4.81)
Chemicals (Rubber mixing)	**(3.64)**	(2.70)
Steel	**(2.55)**	(2.28)
Carbon black	**(2.45)**	(1.90)
Silicone	**(0.75)**	(0.81)
	(16.66)	(12.50)

Competition and Price Pressure

The Company competes directly against major North American and international companies in the custom rubber compounding, anti-vibration and industrial rubber product market segments. Some of these companies have strong established competitive positions in these markets, including having a direct local presence in international markets where the Company does not, and may be sheltered by domestic tariffs. In the case of rubber compounding, the industry leader may have greater resources, both financial and technical, than the Company and has long-standing relationships with some of the Company's prospective customers using well-established marketing and distribution networks. Furthermore, the customers of several industry sectors are price sensitive and thus, certain of the more commodity-like products in our businesses can be affected by severe price pressure, which in turn could adversely impact our profitability in those areas.

Contract-related Risks

Contracts from many of our customers, particularly in the Rubber Solutions and Engineered Products segments, consist of individual purchase orders or blanket orders under umbrella supply agreements. In these cases, there is no obligation on any customer to continue to issue individual purchase orders and most umbrella supply agreements do not impose minimum purchase requirements and also permit the customer to terminate blanket orders at any time. The termination of blanket orders could result in the Company incurring various pre-production, engineering and other costs that we may not recover from our customer and which could have an adverse impact on our profitability. In addition, it is difficult to predict accurately when opportunities to win contract awards for defense products and personal protective equipment from the United States, Canadian or other foreign governments or agencies will arise and how long the contract tender to award and subsequent commencement of production process will take. A prolonged tender process without a corresponding award could also result in the Company incurring various pre-production, engineering and other costs that we may not recover and which could have an adverse impact on our profitability.

Currency Exposure

The Company has net sales and expenses denominated in both Canadian ("CAD") and US ("USD") dollars. In addition, the cost to the Company of certain key raw materials and other expense items and the competitiveness of prices charged by the Company for its products will be indirectly affected by currency fluctuations. Changes in the value of the Canadian dollar relative to the US dollar could have a material positive or adverse effect on the Company's results of operations.

The Company reviews its currency exposure positions from time to time and reacts accordingly by increasing or decreasing the proportion of operating or term loan borrowings denominated in CAD funds as a natural balance sheet hedge or establishing forward contracts to purchase CAD funds to manage its foreign exchange risk related to cash-flows. However, there is no assurance that such strategies will be successful or cost effective and the profitability of the Company's business could be adversely affected by currency fluctuations.

The following table approximates the following impact on the Company of a $0.10 decrease in the value of one CAD dollar in the Company's USD functional currency (million):

	Earnings before tax	
in millions of US dollars	**2021**	2020
Sales (1)	**(1.8)**	(3.9)
Purchases (2)	**6.5**	5.2

(1) Based upon Canadian dollar-denominated sales

(2) Based upon Canadian dollar-denominated debt repayments, purchases and expenses

Health, Safety and the Environmental

The Company's operations are subject to extensive health, safety and environmental (HSE) regulations by federal, provincial, state and local authorities. The Company employs individuals who undertake manufacturing activity and handle various substances in its manufacturing process, the nature of which may expose the Company to risks of causing or being deemed liable for injury or environmental or other damages. The Company regularly assesses its policies and procedures relating to workplace safety in its production facilities. While its use of potentially hazardous materials is limited, the Company ensures that its operations are conducted in a manner that minimizes such risks and maintains insurance coverage considered reasonable by management. To date, no regulatory authority has required the Company to pay any material fines or remediation expenses in connection with any alleged violation of HSE regulations. However, there can be no assurance that future personal injury or environmental damage will not occur or that personal injury or environmental damage due to prior or present practices will not result in future liabilities. While management believes that the Company is in substantial compliance with all material HSE government requirements relating to its operations, changes in government laws and regulations are ongoing and may make HSE compliance increasingly expensive. It is not possible to predict future costs, which may be incurred to meet such obligations.

Impacts of Global Health Situations

Global health situations can have an impact on the Company's operations and we continue to monitor the impact of COVID-19 (Coronavirus). The duration and scope of the continued outbreaks is not known with any certainty and the Company is unable to accurately project the ultimate impact on the business. However, if outbreaks continue for an extended period of time, AirBoss may continue to experience supply chain and logistics challenges, in particular given production delays throughout the world, a decline in sales activities, and reductions in operations and workforce.

Dependence on Key Customers and Contracts

From time to time, a significant portion of the Company's sales for a given period may be represented by a relatively small number of customers. Net sales from one customer represent approximately 40% (2020: 19%) of consolidated net sales in 2021. Five customers represented 56% (2020: 48%) of consolidated net sales in 2021. While the Company continues to work on diversification of its customer base in all segments, there is no assurance of continued success and shifts in market share away from these top customers could adversely impact our profitability.

Product Liability and Warranty Claims

As a manufacturer of rubber-based and other products, products which are used in vehicles and products which are worn by individuals in the defense and first responder communities, the Company faces a risk of product liability and warranty claims from its direct customers and, in some cases, from end-users of its products. Although the Company carries commercial general liability insurance of the types, and in the amounts it believes to be reasonable by industry standards, any claim which is successful and is not covered by insurance or which exceeds the policy limit could have a material adverse effect on the Company and its results.

Capacity and Equipment

Our rubber compounding facilities have an annual capacity to process over 500 million turn pounds.

The Company remains committed to continuous maintenance and upgrading of its equipment. Critical equipment remains not only in a high state of repair, but is also technologically up to date so that the Company is able to ensure the reliability of supply to its customers at competitive prices and at a high quality standard.

The Company has made regular investments in capacity and efficiency across its operations and should additional equipment be required to fulfill any substantial increases in sales, the Company expects that it can be readily sourced in the market, however any material failure of our equipment or inability to purchase additional required equipment could have a material adverse effect on the Company.

Production Disruptions

Our production facilities, and those of our subcontractors and suppliers, are subject to risk of shut-down caused by fire, natural disaster or other catastrophic event, pandemic, labour conflicts or other forces or events beyond our control, or could result from a disruption of supply of source materials from suppliers and sub-suppliers. Any prolonged shut-down of one or more of our production facilities or that of our subcontractors could result in a materially negative impact on our profitability.

Acquisitions and Integration

As part of our growth strategy, we will continue to pursue acquisitions in areas we have identified as consistent with such strategy. However, there can be no assurance that we will identify suitable targets for acquisition or be able to acquire suitable targets successfully. In addition, there is also a risk that the Company may not be able to successfully integrate any acquisition or achieve all or any of the anticipated synergies of such acquisitions or to do so within the anticipated timelines, any of which could adversely impact our profitability and financial condition.

Key Personnel

The Company’s future success largely depends on its ability to recruit, retain and develop qualified managers and other key personnel. If key persons leave the Company and successors cannot be recruited or if the Company is unable to attract qualified personnel, this could have a negative impact on our profitability and financial condition.

DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the fiscal year of the Company, an evaluation was carried out under the supervision of and with the participation of the Company’s management, including our CEO and CFO, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective as of December 31, 2021, the end of the period covered by management’s discussion and analysis, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by officers within those entities.

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

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent period, there have been no changes in the Company’s existing 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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has designed internal controls over financial reporting (“ICFR”) to provide reasonable assurance regarding the reliability of the Company’s financial reporting and its compliance with IFRS in its consolidated financial statements. The CEO/Chairman and the CFO have supervised management in the evaluation of the design and effectiveness of the Company’s internal controls over financial reporting as at December 31, 2021 and believe the design and effectiveness of the internal controls to be effective.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of AirBoss of America Corp. and all the information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared by management, in accordance with IFRS. When alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented in this annual report and has ensured that it is consistent with that presented in the financial statements.

AirBoss of America Corp. maintains systems of internal accounting and administrative controls consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and all members are outside directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers the engagement or re-appointment of the external auditors for review by the Board and approval by the shareholders.

KPMG LLP, the Company's external auditors, who are appointed by the shareholders, audited the consolidated financial statements as of and for the years ended December 31, 2021 and December 31, 2020 in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. KPMG LLP has full and free access to the Audit Committee.

March 8, 2022

P. Gren Schoch
Chairman and Chief Executive Officer

Frank Ientile
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of AirBoss of America Corp.

Opinion

We have audited the consolidated financial statements of AirBoss of America Corp. (the Entity), which comprise:

- the consolidated statements of financial position as at end of December 31, 2021 and end of December 31, 2020
- the consolidated statements of profit and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at end of December 31, 2021 and end of December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of impairment of goodwill

Description of the matter

We draw attention to Notes 2(d), 3(e)(i) and 11 to the financial statements. The goodwill balance included in intangible assets is $51,577 thousand. The Entity performs goodwill impairment testing at least annually and whenever events or changes in circumstances indicate that the carrying amount of the cash-generating unit likely exceeds its recoverable amount. The allocation of goodwill is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment. The recoverable amount of the cash-generating unit is based on value in use, which is determined by discounting the future cash flows generated from the continuing use of the cash-generating unit. In determining the estimated recoverable amount of the cash-generating unit, the Entity's key assumptions include projected sales and margins, discount rates and the terminal multiple.

Why the matter is a key audit matter

We identified the evaluation of the impairment of goodwill as a key audit matter. This matter represented significant auditor judgement due to the high degree of estimation uncertainty in determining the recoverable amount. In addition, the involvement of those with specialized skills and knowledge was required in performing and evaluating the results of our audit procedures due to the sensitivity of the recoverable amount to changes in key assumptions.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We assessed the Entity's ability to accurately forecast by comparing the Entity's projected sales and margins used in the prior year impairment test to actual results.

We compared the Entity's projected sales and margins to actual results. We took into account changes in conditions and events, affecting each cash-generating unit or cash-generating group to assess the adjustments made in arriving at the projected assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of (1) the discount rates and (2) the terminal multiple. The discount rates for the cash-generating units were compared against ranges that were independently developed using publicly available market data for comparable entities. The terminal multiple was compared against independently developed multiples using publicly available market data for comparable entities and overall macro-economic conditions.

Evaluation of acquisition-date fair value of intangible assets and contingent consideration

Description of the matter

We draw attention to Notes 2(d), 4 and 5 to the financial statements. The Entity acquired Blackbox Biometrics, Inc. and Ace Elastomer, Inc. on May 17, 2021 and August 31, 2021, respectively. In connection with the transactions, the Entity recorded patents and trademarks of $13,410 thousand and customer relationships, trade name and unpatented know-how of $25,900 thousand (collectively, the intangible assets). The acquisition of Blackbox Biometrics, Inc. included contingent consideration of $9,008 thousand. The Entity's significant assumptions in determining the acquisition-date fair value for the intangible assets and contingent consideration include financial forecasts, estimated annual attrition rates, discount rates and royalty rates.

Why the matter is a key audit matter

We identified the evaluation of the acquisition-date fair value of the intangible assets and contingent consideration as a key audit matter. This matter required significant auditor judgment due to the estimation uncertainty in determining the fair value of the intangible assets and contingent consideration. In addition, the involvement of those with specialized skills and knowledge was required in performing and evaluating the results of our audit procedures due to the sensitivity of the fair value to possible changes in significant assumptions used in the models. The following methodologies were used: Relief from Royalty, Multi Period Excess Earnings and With and Without Income approach.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We compared the Entity's financial forecasts to historical results to assess the Entity's ability to accurately forecast. We took into account changes in conditions and events to assess the Entity's revenue forecasts. We compared the estimated annual customer attrition rates to historical attrition rates.

In addition, we involved valuations professionals with specialized skills and knowledge, who assisted with the:

- Assessment of the valuation approaches used by the Entity to calculate the fair value of the intangible assets and contingent consideration
- Evaluation of the discount rates by comparing to discount rates that were independently developed using publicly available data for comparable entities or by comparing against a range of returns for venture capital investments
- Evaluation of the royalty rates by comparing against publicly available market data for comparable entities.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors'report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is William J. Stephen.

Vaughan, Canada
March 8, 2022

AirBoss of America Corp.

Consolidated Statement of Financial Position

In thousands of US dollars	*Note*	**December 31, 2021**	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		**7,131**	86,970
Trade and other receivables, including derivatives	*7, 13*	**82,440**	68,602
Prepaid expenses		**10,032**	6,176
Inventories	*8*	**122,147**	45,525
Current income taxes receivable	*18*	**6,136**	1,452
Total current assets		**227,886**	208,725
Non-current assets			
Property, plant and equipment	*9, 10*	**93,148**	81,254
Intangible assets	*11*	**121,075**	71,774
Deferred Income tax assets	*18*	**–**	3,973
Other assets	*12*	**1,155**	1,643
Total non-current assets		**215,378**	158,644
Total assets		**443,264**	367,369
LIABILITIES			
Current liabilities			
Loans and borrowings	*10, 14*	**2,356**	27,083
Trade and other payables, including derivatives	*13*	**103,026**	74,295
Provisions	*15*	**2,840**	573
Current taxes payable	*18*	**–**	747
Total current liabilities		**108,222**	102,698
Non-current liabilities			
Loans and borrowings	*10, 14*	**78,207**	63,651
Employee benefits	*21*	**579**	664
Provisions	*15*	**17,511**	2,058
Deferred income tax liabilities	*18*	**3,597**	3,710
Total non-current liabilities		**99,894**	70,083
Total liabilities		**208,116**	172,781
EQUITY			
Share capital	*16*	**87,937**	87,060
Contributed surplus	*16*	**2,531**	1,578
Retained earnings		**144,680**	105,950
Total equity		**235,148**	194,588
Total liabilities and equity		**443,264**	367,369

The notes on pages 33 to 63 are an integral part of these consolidated financial statements.
Commitments (note 20).

On behalf of the Board

P.G. Schoch
Director

Robert L. McLeish
Director

Consolidated Statement of Profit and Comprehensive income

For the year ended December 31 *In thousands of US dollars*	*Note*	**2021**	2020
Net Sales		**586,858**	501,572
Cost of sales	*8*	**(450,560)**	(365,650)
Gross profit		**136,298**	135,922
General and administrative expenses	*3*	**(52,918)**	(42,425)
Selling and marketing expenses		**(20,729)**	(6,332)
Research and development expenses	*19*	**(3,652)**	(2,657)
Other income (expenses)		**(289)**	(2,311)
Operating expenses		**(77,588)**	(53,725)
Results from operating activities		**58,710**	82,197
Finance costs	*14, 21*	**(4,178)**	(3,368)
Profit before income tax		**54,532**	78,829
Income tax expense	*18*	**(7,829)**	(22,567)
Profit and total comprehensive income for the year		**46,703**	56,262
Profit attributable to:			
Owners of the Company		**46,703**	33,703
Non-controlling interest		**–**	22,559
		46,703	56,262
Earnings per share			
Basic	*17*	**1.73**	1.40
Diluted	*17*	**1.65**	1.35

The notes on pages 33 to 63 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company					
In thousands of US dollars	Share Capital	Contributed Surplus	Retained Earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2020	39,579	1,262	85,138	125,979	–	125,979
Profit and comprehensive income for the period	–	–	33,703	33,703	22,559	56,262
Contributions by and distributions to owners						
Stock options expensed	–	644	–	644	–	644
Share options exercised	(5)	(44)	–	(49)	–	(49)
Share options forfeited	–	(284)	–	(284)	–	(284)
Acquisition of subsidiary (note 6)	–	13,655	–	13,655	23,538	37,193
Acquisition of non-controlling interest (note 6)	47,419	(13,655)	(7,844)	25,920	(46,097)	(20,177)
Settlement of deferred share units	67	–	–	67	–	67
Dividends to equity holders	–	–	(5,047)	(5,047)	–	(5,047)
Total contributions by and distributions to owners	47,481	316	(12,891)	34,906	(22,559)	12,347
Balance at December 31, 2020	87,060	1,578	105,950	194,588	–	194,588

	Attributable to equity holders of the Company					
In thousands of US dollars	Share Capital	Contributed Surplus	Retained Earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2021	87,060	1,578	105,950	194,588	–	194,588
Profit and comprehensive income for the period	–	–	46,703	46,703	–	46,703
Contributions by and distributions to owners						
Stock options expensed	–	1,196	–	1,196	–	1,196
Share options exercised	877	(220)	–	657	–	657
Share options forfeited	–	(23)	–	(23)	–	(23)
Dividends to equity holders	–	–	(7,973)	(7,973)	–	(7,973)
Total contributions by and distributions to owners	877	953	(7,973)	(6,143)	–	(6,143)
Balance at December 31, 2021	87,937	2,531	144,680	235,148	–	235,148

The notes on pages 33 to 63 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31 *In thousands of US dollars*	*Note*	**2021**	2020
Cash flows from operating activities			
Profit for the year		**46,703**	56,262
Adjustments for:			
Depreciation	*9*	**13,135**	12,400
Amortization of intangible assets	*11*	**7,746**	5,787
Impairment of assets		**–**	2,827
Finance costs	*14, 21*	**4,178**	3,368
Unrealized foreign exchange gains		**1,012**	(684)
Share-based payment expense	*15, 16*	**9,448**	2,203
SRED tax credits	*19*	**(813)**	(1,177)
Income tax expense	*18*	**7,829**	22,567
Government assistance loan forgiveness	*19*	**(6,496)**	–
Other		**(168)**	118
		82,574	103,671
Change in inventories		**(74,376)**	(169)
Change in trade and other receivables		**(12,074)**	2,808
Change in prepaid expenses		**(3,065)**	(1,304)
Change in trade and other payables		**25,038**	26,891
Change in provisions		**(1,069)**	(50)
Net change in non-cash working capital balances		**(65,546)**	28,176
Interest paid		**(3,542)**	(2,729)
Income tax paid		**(11,463)**	(24,719)
Net cash provided by operating activities		**2,023**	104,399
Cash flows from investing activities			
Cash acquired on acquisition of subsidiary	*4, 5*	**1,946**	4,498
Cash paid to acquire subsidiary	*4, 5*	**(48,521)**	–
Grant from government		**–**	500
Proceeds from sale of property, plant and equipment		**9**	1,391
Acquisition of property, plant and equipment	*9*	**(16,912)**	(14,215)
Expenditures on intangible assets	*11*	**(1,081)**	(719)
Net cash used in investing activities		**(64,559)**	(8,545)
Cash flows from financing activities			
Repayment of borrowings		**(71,883)**	(8,750)
Proceeds from operating line of credit		**65,000**	–
Principal payments for lease liabilities		**(2,354)**	(1,741)
Payment of debt refinancing fees		**(1,593)**	(717)
Proceeds from new debt		**–**	6,432
Exercise of stock options (net of withholding taxes)		**656**	(50)
Repayment of share purchase loans	*12*	**–**	248
Share issuance costs		**–**	(178)
Interest received on share purchase loan		**7**	15
Dividends paid	*16*	**(7,359)**	(4,845)
Net cash used in financing activities		**(17,526)**	(9,586)
Net (decrease) / increase in cash and cash equivalents		**(80,062)**	86,268
Cash and cash equivalents at January 1		**86,970**	121
Effect of exchange rate fluctuations on cash held		**223**	581
Cash and cash equivalents at December 31		**7,131**	86,970

The notes on pages 33 to 63 are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements ("CFS")

For the years ended December 31, 2021 and 2020
(Amounts in thousands of US dollars, 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 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, health care, government, automotive and industrial markets (see note 22).

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

List of Subsidiaries

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

Operating Subsidiaries	Jurisdiction	Ownership % 2021 (2020)
AirBoss Rubber Compounding (NC) LLC ("ANC")	North Carolina	100% (100%)
SunBoss Chemicals Corp.	Ontario	100% (100%)
AirBoss Flexible Products, LLC ("AFP")	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")	Texas	100% (100%)
Blackbox Biometrics, Inc. ("B3")	New York	100% (nil)
Ace Elastomer, LLC ("Ace")	South Carolina	100% (nil)

The Company's operating segments are organized into 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.

The Company owned 55% of AirBoss Defense Group from January 1, 2020 until October 25, 2020 and acquired the remaining 45% ownership interest on October 26, 2020 (see note 6).

COVID-19

In March 2020, the World Health Organization declared COVID-19 a global pandemic. The impact of COVID-19 has been felt throughout the world, with significant disruptions to business operations, supply chains and customer demand; the imposition of quarantines; as well as considerable general concern and uncertainty. While a majority of the Company's operations have fallen within essential businesses classifications and have continued to operate throughout the pandemic, the Engineered Product segment's original equipment manufacturers ("OEM") customers shut down their operations in March 2020 and as a result, the Company temporarily idled its automotive related operations from March 2020 through mid-May 2020. This suspension had a negative impact on the segment's profitability and cash flows. In 2021, the Company continued to experience significant supply challenges and record raw material price increases. The Engineered Products segment was further challenged as electronic chip shortages caused OEMs to shutter production. The ultimate business and economic impacts of COVID- 19 will depend on a variety of factors, including the possibility of future shutdowns, impacts on customers and suppliers, the rate at which economic conditions return to pre-COVID levels, any continued or future governmental orders or lock-downs due to any future wave of COVID-19, the potential for a recession in key markets due to the effect of the pandemic, and on the demand for the respective products that the Company and its customers produce.

NOTE 2 BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Consolidated financial statements were authorized for issue by the Board of Directors on March 8, 2022.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- certain property, plant and equipment was re-measured at fair value on the adoption of IFRS
- forward contracts are measured at fair value
- liabilities for cash settled share-based payment arrangements are initially and thereafter measured at fair value
- equity settled share-based payment arrangements are measured at fair value at the grant date
- recognition of future income taxes on foreign exchange differences where the currency of the tax basis on non-monetary assets and liabilities differ from the functional currency
- the employee benefit liability is recognized as the net total of the plan assets, at fair value, less the present value of the defined benefit obligation.

(c) Functional and presentation currency

These consolidated financial statements are presented in US dollars ("USD"), which is the Company's functional currency. All financial information presented in USD has been rounded to the nearest thousand, except where otherwise indicated.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Significant areas requiring the use of estimates include valuation of accounts receivable, inventory, intangible assets, accounting for income taxes, share-based payments, measurement of post-retirement benefits and fair value of assets acquired through business combination. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 4 to 6 – fair value of assets acquired in a business combination and fair value of contingent consideration

Note 7 – trade and other receivables

Note 8 – inventories

Note 10 – leases

Note 11 – intangible assets

Note 18 – income taxes

Note 19 – government assistance

Information about assumptions and estimation uncertainties that have a significant risk resulting in a material adjustment within the next financial year are included in the following notes:

Note 11 – intangible assets - key assumptions used in value-in-use calculations;

Note 15 – provisions;

Note 16 – capital and other components of equity;

Note 18 – income taxes;

Note 20 – commitments and contingencies; and

Note 21 – post retirement benefits.

.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Business combinations

The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. The Company elects to measure, on a transaction-by-transaction basis, non-controlling interest either at its fair value or at its proportionate share of the recognized amount of the identifiable net assets at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred. Contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value are recognized in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed, when necessary, to align them with the policies adopted by the Company.

(iii) Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in USD, which is the Company's functional and presentation currency.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to functional currencies at exchange rates at the dates of the transactions, or valuation where items are re-measured. Monetary assets and liabilities denominated in a currency other than the functional currency are translated to the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities are recognized in profit or loss on the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses are presented on a net basis in the income statement within other income (expense).

(c) Financial instruments

(i) Financial assets and liabilities

The Company recognizes financial assets and financial liabilities initially at fair value and subsequently measures these at either fair value or amortized cost based on the following classifications:

Fair value through profit or loss ("FVTPL"):

Financial assets and financial liabilities purchased or incurred, respectively, with the intention of generating earnings in the near term, and derivatives other than cash flow hedges, are classified as FVTPL. This category includes derivative assets and derivative liabilities that do not qualify for hedge accounting. For items classified as FVTPL, the Company initially recognizes such financial assets on the consolidated statement of financial position at fair value and recognizes subsequent changes in the consolidated statements of profit. Transaction costs incurred are expensed in the consolidated statement of profit. The Company does not currently hold any liabilities designated as FVTPL.

Fair value through other comprehensive income ("FVTOCI"):

This category includes the Company's investments in equity securities. Subsequent to initial recognition, they are measured at fair value on the consolidated statement of financial position and changes therein are recognized in other comprehensive income. When an investment is derecognized, the accumulated gain or loss in other comprehensive income is transferred to the statement of profit.

Amortized cost:

The Company classifies financial assets held to collect contractual cash flows at amortized cost, including cash and cash equivalents, trade and other receivables, and share purchase loans. The Company initially recognizes the carrying amount of such assets on the consolidated statements of financial position at fair value plus directly attributable transaction costs, and subsequently measures these at amortized cost using the effective interest rate method, less any impairment losses.

Financial liabilities that are not classified as FVTPL include trade and other payables and long-term debt. These financial liabilities are recorded at amortized cost on the consolidated statement of financial position.

(ii) Impairment of financial assets

The Company uses the forward looking "expected credit loss" model to determine the allowance for impairment as it relates to trade and other receivables. The Company's allowance is determined by historical experiences, and considers factors including the aging of the balances, the customer's credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets/location of customers.

(iii) Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows and benefits from the asset expire or are settled. The difference between the carrying amount of the financial asset and the sum of consideration received and receivable is recognized in the consolidated statements of profit.

Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated statements of profit.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(iv) Derivative financial instruments

The Company holds stand-alone derivative financial instruments to reduce its foreign currency risk exposures. Such derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized immediately in the consolidated statements of profit.

(d) Property, plant and equipment

(i) Recognition and measurement

Land and buildings comprise mainly manufacturing facilities and offices. Items of property, plant and equipment are measured at historical cost (net of government grants) less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Land is not depreciated. For other property, plant and equipment, depreciation is calculated over the depreciable amount, which is the cost of an asset, revalued amount or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of property, plant and equipment, with certain manufacturing equipment being depreciated on a units of production basis since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

• buildings	15-40 years
• plant and manufacturing equipment	5-15 years
• vehicles	3-5 years
• furniture, office, lab and computer equipment	3-5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(e) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of a business is included in intangible assets. At initial recognition, goodwill is measured as the excess of purchase price over the fair value of identifiable net assets.

In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, the amount recorded prior to the transition to IFRS.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested at least annually for impairment and whenever events or changes in circumstances indicate that the carrying amount of the cash-generating unit likely exceeds its recoverable amount. Impairment losses on goodwill are not reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

(ii) Customer Relationships

Customer Relationships that arise upon the acquisition of a business are included in intangible assets. At initial recognition, customer relationships are measured at fair value based on total sales to customers, estimating an annual attrition rate and future growth based on current market conditions and historical data.

(iii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Investment tax credits and other related government assistance are recorded as a reduction of R&D department costs. Investment tax credits related to capital assets reduce property, plant and equipment accordingly.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use and borrowing costs on qualifying assets. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(iv) Other intangible assets

Other intangible assets that are acquired or developed by the Company and have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses. Costs associated with annual licenses and maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when there is an ability to use the software product and it can be demonstrated how the software product will generate probable future economic benefits.

Directly attributable costs that are capitalized as part of the software product include the incremental software development or contracted employee costs. Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

(v) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and intellectual property, are recognized in profit or loss as incurred.

(vi) Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

The estimated useful lives for the current and comparative periods are as follows:

• software	5 years
• capitalized development costs	3-5 years
• customer relationships	10-17 years
• brands, patents and trademarks	8-10 years

(f) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of manufactured inventories is based on the weighted average cost principle and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Inventory that is not interchangeable is determined on an individual item basis and includes expenditures incurred in acquiring the inventories, shipping and logistics costs. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. Impairment charges are recorded against cost of sales, when it is determined the net realizable value is less than cost.

(g) Employee benefits:

(i) Other long-term employee benefits

The Company provides certain employees with post retirement life insurance benefits that are unfunded. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries. The Company's net obligation in respect of long-term employee benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations. Any actuarial gains and losses are recognized in other comprehensive income and retained earnings in the period in which they arise.

(ii) Defined Contribution Plan

US operating subsidiaries of AirBoss maintain 401(k) defined contribution plans for their respective employees. The Company and its Canadian operating subsidiaries maintain registered and unregistered defined contribution plans for their employees. Contributions to these plans are expensed as incurred.

(iii) Multi-Employer Pension Plan

The Company contributes to the Steel Workers Pension Trust, a defined benefit multi-employer pension plan (MEPP) under the terms of collective-bargaining agreements that cover its union-represented employees in the State of Michigan. Defined benefit MEPPs are accounted for as defined contribution plans as adequate information to account for the Company's participation in the plan is not available due to the size and number of contributing employees in the plan. The risks of participating in a MEPP are different from participation in a single-employer plan in the following aspects:

(a) Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

(b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

(c) If the Company chooses to stop participating in the multi-employer plan, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

(iv) Bonus Plan

The Company recognizes a liability for unpaid bonuses and an expense for all bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders, after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Defined Benefit plan

The Company provided designated employees with defined post-employment benefits based upon their years of service. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. These benefits are accrued by the Company and remain unfunded unless certain events occur. The Company's net obligation, in respect of defined benefit pension plans, is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets (if any) are deducted. The discount rate is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The Company recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and reports them in retained earnings.

Settlements are approved by the Board of Directors and any difference between the final cash settlement and the Company's net obligation, are recognized at that time as a gain or loss to the current Statement of Income.

(h) Provisions

Provisions for environmental restoration and legal claims are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(i) Net Sales:

(i) Goods Sold

Net sales from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Net sales for production of finished goods is recognized at the point in time control of the goods is transferred to the customer. Control of finished goods production transfers upon shipment to, or receipt by, customers depending on the terms of the contract. Generally, the buyer has no right of return except if the product did not comply with the agreed upon specifications.

(ii) Services

Net sales for tolling services is recognized over time as value is added to the raw materials which are controlled and provided by the customer. Net sales for other services are recognized upon acceptance by the customer.

(j) Government assistance

Government assistance is recognized as a reduction of the related expense or cost of the asset acquired in the period the expenditure is recognized, unless the conditions for receiving the assistance are met after the related expenditure has been recognized. In this case, the assistance is recognized when it becomes receivable.

(k) Lease payments

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is presented in investment property. The right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Company's accounting policies.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company applied judgment to determine the lease term for a lease contract running month-to-month, which significantly affects the amount of lease liability and right-of-use asset recognized.

(l) Finance income and finance costs

Finance income comprises interest income on funds invested and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized, as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets and the financing component of employee benefits. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(m) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years. Current tax also includes any tax arising from dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(n) Segment reporting

Segment results that are reported to the Company's CEO (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Operating segments are aggregated if they are similar and demonstrate similar economic characteristics. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), and head office expenses.

(o) Share-based payments

In 2015, the shareholders approved the Company's 2015 Omnibus Incentive Plan ("Omnibus Plan"). The Omnibus Plan is a share-based compensation plan, under which the entity receives services from directors, employees and certain advisors as consideration for equity instruments of the Company. The fair value of the services received in exchange for the grant of the equity awards is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the awards granted.

Under the Omnibus Plan, the Company can issue restricted stock units, performance share units, deferred share units and stock options pursuant to the terms and conditions of the Omnibus Plan and the related award agreements entered into thereunder.

Non-market vesting conditions are included in assumptions about the number of equity awards that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of equity awards that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. Unless net settled, when options are exercised the Company issues new shares. The proceeds received, together with the amount recorded in contributed surplus, are credited to share capital when the options are exercised. The beneficiary can elect to convert the fair value of the vested options to the market value of shares on a cash-less basis on the exercise date. Liabilities related to performance share units are settled through cash payment, and liabilities related to deferred share units are settled through the issuance of shares, or equivalent cash value, at the Company's sole discretion.

The dilutive effect of outstanding equity awards is reflected as additional share dilution in the computation of diluted earnings per share.

(p) New Standards adopted

Amendments to IAS 1, *Presentation of Financial Statements*

The amendments clarify the classification of liabilities as current or non-current. For the purposes of non-current classification, the amendments remove the requirement for a right to defer settlement of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period in order to qualify for non-current classification. The amendment did not have a material impact on the consolidated financial statements.

Amendments to IFRS 9, *Financial Instruments and* IFRS 7*, Financial Instruments: Disclosures*

Under the amendments a company will not have to derecognize the carrying amount of financial instruments for changes required by the ongoing reform of inter-bank offered rates and other interest rate benchmarks, but change the effective interest rate to reflect the new benchmark rate. The amendment did not have a material impact on the consolidated financial statements.

(q) Future Accounting Standards

Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*

The amendment specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to the contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling that contract. The amendment is effective on January 1, 2022 and is to be applied prospectively. The adoption of the amendment is not expected to have a material impact on the consolidated financial statements.

Amendments to IAS 1, *Presentation of Financial Statements*

The first amendment serves to address whether debt and other liabilities with an uncertain settlement date should be classified as current or non-current in the Consolidated Balance Sheets. The second amendments will help companies provide useful accounting policy disclosures. Both amendments are effective on January 1, 2023 and the Company is assessing the impact of adopting these amendments on its consolidated financial statements.

Amendments to IAS 12, Income Taxes

The amendments narrow the scope of the recognition exemption so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and the Company is assessing the impact of adopting these amendments on its consolidated financial statements.

Amendments to IAS 8, Definition of Accounting Estimates

The amendments will require the disclosure of material accounting policy information rather than disclosing significant accounting policies and clarifies how to distinguish changes in accounting policies from changes in accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023 and the Company is assessing the impact of adopting these amendments on its consolidated financial statements.

NOTE 4 ACQUISITION OF ACE ELASTOMER, INC.

On August 31, 2021, the Company closed of the previously announced acquisition of 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 preliminary 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 closed the previously announced transaction to acquire B3. $7.6 million in cash was paid on closing and up to an additional $20 million will be paid in royalties over eight years, based on revenues earned from B3 products.

Acquisition-related costs

The Company incurred acquisition-related costs of $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 preliminary estimates of fair values as follows:

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

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

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

Goodwill

Goodwill arising from the acquisition has been recognized as follows.

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

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

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

NOTE 6 AIRBOSS DEFENSE GROUP TRANSACTIONS

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

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

Acquisition-related costs

The Company incurred acquisition-related costs of $2,384 on professional fees and due diligence costs in 2020 and $1,401 in 2019 related to this transaction. These costs have been included in general and administrative expenses.

Identifiable assets acquired and liabilities assumed

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

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

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

Goodwill

Goodwill arising from the acquisition has been recognized as follows:

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

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

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

Acquisition of non-controlling interest in ADG

On October 26, 2020, the Company acquired the 45% ownership of AirBoss Defense Group held by CSH in return for 3.5 million shares of the Company having a fair value of $47,597 (less issuance costs of $178) and $20,000 (see note 14), with $5,000 paid at closing, and installments of $5,000 paid at each three-month anniversary. The fair value of the Company's shares issued was based on the listed share price at October 23, 2020 of CAD $17.87 per share. The excess of the total consideration over the carrying value of the non-controlling interest of $46,097 was accounted in the contributed surplus of $13,655 and retained earnings of $7,844.

NOTE 7 TRADE AND OTHER RECEIVABLES

December 31 *In thousands of US dollars*	**2021**	2020
Trade receivables	**80,861**	66,692
Less: expected credit loss	**(601)**	(750)
	80,260	65,942
Other receivables	**2,180**	2,660
	82,440	68,602

Impairment losses

The aging of trade receivables at the reporting date was:

	2021		2020	
December 31 *In thousands of US dollars*	**Gross**	**Impairment**	Gross	Impairment
Within terms	**64,776**	**–**	49,544	–
Past due 0-30 days	**10,520**	**–**	12,621	–
Past due 31-120 days	**5,565**	**(601)**	4,527	(750)
	80,861	**(601)**	66,692	(750)

The continuity of the allowance for impairment was:

For the year ended December 31 *In thousands of US dollars*	**2021**	2020
Balance at January 1	**(750)**	(481)
Impairment loss recognized	**(188)**	(755)
Collected	**292**	486
Revised estimate	**45**	–
Balance at December 31	**(601)**	(750)

NOTE 8 INVENTORIES

December 31 *In thousands of US dollars*	**2021**	2020
Raw materials and consumables	**49,338**	33,147
Work in progress	**3,734**	3,743
Finished goods	**76,848**	14,229
Inventory in transit	**658**	863
	130,578	51,982
Provisions	**(8,431)**	(6,457)
	122,147	45,525

An inventory charge of $1,974 (2020: charge of $2,867) was included in cost of sales.

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

In thousands of US dollars	Land and buildings[1]	Plant and equipment[1]	Furniture and equipment[1]	Under construction	Total
Cost					
Balance at January 1, 2020	36,240	89,368	2,635	12,531	140,774
Acquisition of subsidiary	–	–	1,335	–	1,335
Additions	1,602	10,482	293	2,510	14,887
Government grant	–	–	–	(500)	(500)
Disposals	(1,933)	(1,176)	(70)	–	(3,179)
Transfers	4,898	4,156	(374)	(8,680)	–
Balance at December 31, 2020	40,807	102,830	3,819	5,861	153,317
Acquisition of subsidiary	1,811	1,939	184	27	3,961
	5,030	2,165	408	13,901	21,504
Disposals	(846)	(66)	–	–	(912)
Transfers	5,586	856	(1,365)	(5,077)	–
Balance at December 31, 2021	52,388	107,724	3,046	14,712	177,870
Accumulated depreciation					
Balance at January 1, 2020	9,685	49,157	1,763	–	60,605
Depreciation for the period	2,530	9,450	420	–	12,400
Impairment	–	820	–	–	820
Disposals	(562)	(1,171)	(29)	–	(1,762)
Transfers	2,824	(2,846)	22	–	–
Balance at December 31, 2020	14,477	55,410	2,176	–	72,063
Acquisition of subsidiary	–	498	–	–	498
Depreciation for the period	3,390	9,113	632	–	13,135
Disposals	(937)	(37)	–	–	(974)
Transfers	959	(438)	(521)	–	–
Balance at December 31, 2021	17,889	64,546	2,287	–	84,722

(1) includes right of use assets. See note 10 for additional details.

Carrying amounts

In thousands of US dollars	Land and buildings	Plant and equipment	Furniture and equipment	Under construction	Total
At December 31, 2020	26,330	47,420	1,643	5,861	81,254
At December 31, 2021	34,499	43,178	759	14,712	93,148

Depreciation expense of $12,442 (2020: $11,774) was charged to costs of sales, $673 (2020: $541) was charged to general and administrative expense and $21 (2020: $85) was charged to research and development expenses.

During 2020, the Company reviewed operations at AirBoss Defense Group's Acton Vale facility which resulted in a change in the expected usage of certain molding and tooling equipment that were previously amortized over units of production basis. The equipment is now expected to remain in production for one more year. The effect of this change increased depreciation expense included in cost of sales by $1,323.

Impairment

During 2020, the Engineered Products segment replaced certain equipment to improve production efficiency. The equipment was taken out of production and was no longer in use. Management estimated the equipment's recoverable amount was nil and the Company recorded an impairment loss of $743. In addition, the Rubber Solutions segment removed an asset from service and recorded a $77 impairment charge.

NOTE 10 LEASES

The Company leases some of its plants, offices, and equipment. The majority of the Company's leases are for buildings, which have remaining terms between 1 and 7 years.

Right-of-Use Assets

In thousands of US dollars	Land and buildings	Equipment	Total
Cost			
Balance at January 1, 2020	13,525	1,181	14,706
Lease additions	–	671	671
Balance at December 31, 2020	13,525	1,852	15,377
Acquisition of subsidiary	1,593	78	1,671
Lease additions	4,517	75	4,592
Disposals	(846)	(5)	(851)
Balance at December 31, 2021	18,789	2,000	20,789
Accumulated depreciation			
Balance at January 1, 2020	1,310	161	1,471
Depreciation	1,465	304	1,769
Balance at December 31, 2020	2,775	465	3,240
Depreciation	1,999	385	2,384
Disposals	(846)	(5)	(851)
Balance at December 31, 2021	3,928	845	4,773 -
Carrying amount at December 31, 2020	10,750	1,387	12,137
Carrying amount at December 31, 2021	14,861	1,155	16,016

Lease Liabilities

Interest expense on lease liabilities of $764 (2020: $685) is included in Finance Costs.

Cash outflow related to leases was $3,118 (2020: $2,426).

The future undiscounted contractual lease payments are as follows:

In thousands of US dollars	**Total**	**2022**	**2023**	**2024**	**2025**	**2026**	**Thereafter**
Lease payments	20,425	3,090	2,855	2,639	2,584	2,589	6,668

NOTE 11 INTANGIBLE ASSETS

In thousands of US dollars	Goodwill	Customer Relationships	Brands, Patents and Trademarks	Software and Development costs	Total
Cost					
Balance at January 1, 2020	32,225	28,250	2,458	6,501	69,434
Acquisition of subsidiary	2,828	17,900	8,150	–	28,878
Purchases	–	–	86	633	719
Impairment	–	–	(2,007)	–	(2,007)
Disposals	–	–	–	(173)	(173)
Transfers	–	–	–	–	–
Balance at December 31, 2020	35,053	46,150	8,687	6,961	96,851
Acquisition of subsidiary	16,524	17,060	22,341	41	55,966
Purchases	–	–	–	1,081	1,081
Balance at December 31, 2021	51,577	63,210	31,028	8,083	153,898
Accumulated Amortization					
Balance at January 1, 2020	–	15,437	–	4,062	19,499
Amortization for the year	–	4,702	819	266	5,787
Disposals	–	–	–	(209)	(209)
Balance at December 31, 2020	–	20,139	819	4,119	25,077
Amortization for the year	–	4,863	2,268	615	7,746
Balance at December 31, 2021	–	25,002	3,087	4,734	32,823
Carrying amounts					
At December 31, 2020	35,053	26,011	7,868	2,842	71,774
At December 31, 2021	51,577	38,208	27,941	3,349	121,075

Amortization expense of $7,746 (2020: $5,787) was charged to general and administrative expense. Remaining amortization for customer relationships acquired is 2 to 17 years and patents and trademarks is 3 to 8 years.

Goodwill

December 31 *In thousands of US dollars*	**2021**	2020
AirBoss Defense Group	**30,349**	24,988
Rubber Solutions	**11,163**	–
Engineered Products	**10,065**	10,065
	51,577	35,053

Impairment

The AirBoss Defense Group segment has been working on the development of certain next generation portfolio products for several years. The product development pipeline has been re-prioritized and revised as a result of the Company's response to the COVID-19 pandemic, particularly with respect to improved manufacturability and enhanced features of its core product portfolio. During 2020, the Company determined that certain product development costs for predecessor products would no longer form part of the survivability platform. Management estimated the recoverable amount of these development costs was nil and the Company recorded an impairment loss of $2,007.

Goodwill

Goodwill is allocated to those Cash Generating Units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill. As at December 31, 2021 and December 31, 2020, there was no goodwill impairment.

Recoverable amount

Recoverable amount was based on value in use. Value in use was determined by discounting the future cash flows generated from the continuing use of the cash generating unit.

Key assumptions used in value-in-use calculations

The calculations of value in use for the Cash Generating Units are most sensitive to the following assumptions:

- Discount rate used 12.4 to 13.1% determined using risk-adjusted returns from comparable companies adjusted for the Company's capital structure.
- Terminal multiple based on market capitalization
- Projected sales and margins used to extrapolate cash flows beyond the budget date

Cash flows were projected based on past experience, actual operating results and the business plan for a one-year period. Cash flows for a further four-year period were extrapolated using projected sales and a growth rate for operating expenses based on past experiences and future growth trends.

Net sales and margins in the business plan were budgeted based on discussions with customers, contracts on-hand and industry information, past experience and trends, as well as continuous improvement initiatives. The anticipated annual net sales have been based on expected growth levels (net of the inflationary effect of rising raw material prices).

The values assigned to the key assumptions represent management's assessment of future trends in the defense and engineered products industries, which are based on both external sources and internal sources (historical data). Material changes to these assumptions could cause the carrying amount of goodwill to exceed its net recoverable amount.

NOTE 12 OTHER ASSETS

In thousands of US dollars	Share purchase loan	Other	Total
Balance at January 1, 2020	961	446	1,407
Accrued interest	11	–	11
Interest paid	(15)	–	(15)
Repayment of loan	(248)	–	(248)
Effect of movements in exchange rates	(5)	–	(5)
Acquired on acquisition of ADG (note 6)	–	493	493
Balance at December 31, 2020	704	939	1,643
Investment eliminated upon acquiring control of B3 (note 5)	–	(493)	(493)
Accrued interest	10	–	10
Interest paid	(7)	–	(7)
Effect of movements in exchange rates	2	–	2
Balance at December 31, 2020	709	446	1,155

NOTE 13 DERIVATIVES NOT DESIGNATED IN A FORMAL HEDGING RELATIONSHIP

Foreign exchange hedge

At December 31, 2021, the Company had contracts to sell USD $16,617 from January 2022 to September 2022 for Canadian dollars ("CAD") $21,000. The fair value of these contracts, representing an unrealized loss of $53, are included in trade and other payables, including derivatives on the statement of financial position. The unrealized changes in fair value, representing a loss of $673 (2020: gain of $362), are recorded on the statement of profit as other income (expense).

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

Interest rate swap

In December 2020, the Company entered into an interest rate swap agreement for a notional amount of $28,125 ($26,250 as at December 31, 2021) amortizing down to $24,375 at maturity on January 1, 2023. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 0.265%. This swap agreement replaces an old swap agreement that matured in December 2020 that calculated interest based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%.

During 2021, interest expense on the swap agreements was $44 (2020: $264).

At December 31, 2021, the fair value of this agreement, representing a gain of $48 (2020: loss of $57), is included in loans and borrowings on the statement of financial position. The change in the fair value, representing a gain of $105 (2020: loss of $37), is recorded on the statement of profit as finance costs.

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

NOTE 14 LOANS AND BORROWINGS

December 31 *In thousands of US dollars*	**2021**	2020
Non-current		
Revolving line of credit	**65,000**	–
Interest rate swap	**(48)**	–
Term debt	**–**	52,500
Lease liabilities	**15,043**	11,670
Less: deferred financing	**(1,788)**	(519)
	78,207	63,651
Current		
Term debt and interest rate swap	**–**	3,807
Forgivable loan from US government (note 19)	**–**	6,464
Due to former non-controlling interest (note 6)	**–**	15,000
Lease liabilities	**2,356**	1,812
	2,356	27,083

December 31 *In thousands of US dollars*	**2021**	2020
Term debt	**65,000**	–
Interest rate swap	**(48)**	57
Term debt	**–**	56,250
PPP loan	**–**	6,464
Due to former non-controlling interest	**–**	15,000
Lease liabilities	**17,399**	13,482
Subtotal	**82,351**	91,253
Less principal due within one year	**(2,356)**	(27,083)
	79,995	64,170
Less deferred financing	**(1,788)**	(519)
	78,207	63,651

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.

In April 2021 the Company's credit facility was amended to increase the revolving facility from $60 million to $150 million. The credit facility includes terms to replace LIBOR with a suitable replacement as that issue develops. The replacement of LIBOR is not expected to have an impact on the consolidated financial statements.

In January 2020 the Company signed an amended and restated credit agreement in connection with the merger between AirBoss' defense business and Critical Solutions International, Inc. The amended and restated credit agreement was scheduled to mature in January 2023 and otherwise carried similar terms as the existing credit agreement.

Deferred financing fees, less accumulated amortization have been deducted against the term loan for presentation purposes.

The fees are being amortized over the term of the credit facilities and $324 (2020: $614) has been amortized and is included in finance costs.

Interest expense under the credit facility was $3,817 (2020: $1,439).

Principal repayments on the loans and borrowings are as follows:

In thousands of US dollars	**Total**	**2022**	**2023**	**2024**	**2025**	**2026**	**Thereafter**
Revolving line of credit	64,952	–	–	–	–	64,952	–
Lease liabilities	17,399	2,356	2,271	2,168	2,152	2,256	6,196
	82,351	2,356	2,271	2,168	2,152	67,208	6,196

As at December 31, 2021, $65,713 was drawn against the credit facility (2020: $732).

All obligations under the current credit facility and related loan documentation are secured by a first charge against all of the Company's present and after acquired property in favor of the lenders.

At December 31, 2021 the Company is not in default, nor has it breached any terms of the credit agreement relating to the current credit facilities.

The carrying amount and fair value of the borrowings are as follows:

	Carrying amount		Fair value	
In thousands of US dollars	**2021**	2020	**2021**	2020
Revolving line of credit and interest rate swap	**63,164**	–	**65,022**	–
Term debt and interest rate swap	**–**	55,788	**–**	56,239
Forgivable loan from US government	**–**	6,464	**–**	6,447
Due to former non-controlling interest	**–**	15,000	**–**	14,847
Lease liabilities	**17,399**	13,482	**18,739**	15,041

The fair value of current borrowings approximate the carrying amount, as the impact of discounting at current market rates will not have a material impact. The fair values are based on cash-flows discounted using a rate based on the borrowing rate of 2.1% (2020: 1.9%) for the term loan and lease liabilities.

NOTE 15 PROVISIONS

In thousands of US dollars	Site restoration	PSUs and DSUs	Payable to former owners of acquired businesses	Total
Balance at January 1, 2020	74	655	–	729
Impact of change in accounting policy	–	–	–	0
Provisions accrued during the year	–	1,936	–	1,936
Payments during the year	–	(117)	–	(117)
Forfeitures during the year	–	(93)	–	(93)
Foreign exchange	–	176	–	176
Balance at December 31, 2020	74	2,557	–	2,631
Less: amount due within one year	–	(573)	–	(573)
	74	1,984	–	2,058
Funds withheld on acquisition on ACE (note 4)	–	–	2,542	2,542
Settlement of funds 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 year	–	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)
	79	8,974	8,458	17,511

Performance Awards

The Company has issued certain executives with an aggregate of 224,470 performance awards pursuant to the terms and conditions of the Omnibus Plan. Each performance award entitles the holder to receive on vesting a cash payment equal to the product of (a) the fair market value of a common share as of the vesting date and (b) a performance factor between 0.5 and 1.5, based on the level of achievement of predetermined performance objectives over the vesting period generally. The performance awards vest three years following the grant date.

Performance stock units	**2021**	2020
January 1	**201,210**	83,998
New issuances	**54,350**	191,233
Forfeitures	**(5,847)**	(46,906)
Settlements	**(25,243)**	(27,115)
December 31	**224,470**	201,210

During 2021, the Company recognized as employee costs $5,577 (2020: $1,149) related to the plan.

Deferred Stock Units

The Company has issued deferred stock units ("DSUs") to non-executive directors pursuant to the terms and conditions of the Omnibus Plan. Each vested DSU entitles the holder to receive, on redemption, either: (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 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	**2021**	2020
January 1	**97,060**	72,672
New issuances	**15,275**	31,976
Settlements	**–**	(7,588)
December 31	**112,335**	97,060

During 2021, the Company recognized as employee costs $2,698 (2020: $694) related to DSUs issued under the Omnibus Plan.

NOTE 16 CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital and Contributed Surplus

Share Capital: Authorized - Unlimited number of Class A shares without par value designated as common shares.

Unlimited number of Class B preference shares without par value and issuable in series subject to the filing or articles of amendment. The directors may fix, from time to time before such issue, the number of shares that is to comprise each series and the designations, rights, privileges, restrictions and conditions attaching to each series.

Under the Omnibus plan, a maximum of 10% of issued and outstanding shares are available for issuance under any type of share-based compensation plan. As at December 31, 2021, 936,191 shares are available (2020: 988,394).

Issued share capital is as follows:

In thousands of shares	**2021**	2020
January 1	**26,909**	23,392
Issued to acquire subsidiary	**–**	3,500
Exercise of share options	**84**	9
Settlement of deferred share units	**–**	8
December 31	**26,993**	26,909

Issuance of common shares

During 2021, 98,764 options were exercised resulting in the issuance of 84,379 common shares (2020: 23,974 options exercised).

In December 2021, the Company renewed its normal course issuer bid ("NCIB") to purchase up to 500,000 of its common shares, representing approximately 1.9% of the Company's public float. The Company purchased nil shares (2020: nil) under its NCIB in 2021.

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

The term of an option shall not exceed 10 years from the date of grant. Options granted to directors and officers of the Company, which were outstanding at December 31, 2021, are as follows:

Range of exercise price ($CAD)	**Options outstanding Quantity**	**Weighted average contract life**	**Options exercisable Quantity**
5.14	1,265,418	3.23	307,697
9.49	144,764	2.41	70,546
10.98	33,200	0.86	33,200
11.56	1,244	1.22	622
16.30	25,000	3.42	6,250
17.53	8,372	3.87	2,093
36.01	172,794	4.23	–
	1,650,792		420,408

Options granted and outstanding:

A summary of the status of the Company's stock option plan as of December 31, 2021 and 2020 and changes during the years then ended, is presented below:

	2021		2020	
	Quantity	**Weighted average exercise price ($CAD)**	Quantity	Weighted average exercise price ($CAD)
Outstanding beginning of year	**1,605,426**	**6.42**	438,204	12.26
Granted	**175,279**	**36.01**	1,616,925	5.38
Exercised	**(98,764)**	**13.50**	(23,974)	10.80
Forfeited	**(31,149)**	**7.87**	(425,729)	8.24
Outstanding end of year	**1,650,792**	**9.11**	1,605,426	6.42

Inputs for measurement of grant date fair values

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

Fair value of share options and assumptions

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

The stock options issued vest as follows:

	Quantity
Vested at December 31, 2021	420,407
2022	408,513
2023	407,891
2024	370,782
2025	43,199
	1,650,792

Stock option expense

During 2021, the Company recognized as employee costs $1,173 (2020: $360) relating to option grants in general and administrative expenses of the statement of income.

Dividends

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

	2021		2020	
Shareholder of record at:	**$CAD/share**	**Date Paid**	$CAD/share	Date Paid
March 31	**0.07**	**April 15, 2021**	0.07	April 15, 2020
June 30	**0.10**	**July 15, 2021**	0.07	July 15, 2020
September 30	**0.10**	**October 15, 2021**	0.07	October 15, 2020
December 31	**0.10**	**January 15, 2022**	0.07	January 15, 2021
	0.37		0.28	

The dividend payable at December 31, 2021 was $2,133 (2020: $1,479).

NOTE 17 EARNINGS PER SHARE

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

For the year ended December 31 *In thousands of US dollars except per share amounts*	**2021**	2020
Numerator for basic and diluted earnings per share:		
Net income	**46,703**	33,703
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	**26,970**	24,032
Dilution effect of stock options	**1,224**	787
Dilution of effect of deferred stock units	**104**	82
Diluted weighted average number of shares outstanding	**28,298**	24,901
Net income per share:		
Basic	**1.73**	1.40
Diluted	**1.65**	1.35

As of December 31, 2021, nil options (2020: 74,742) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

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

NOTE 18 INCOME TAXES

The provision for income taxes differs from the amount computed by applying the Canadian statutory income tax rate to income before income taxes for the following reasons:

For the year ended December 31 *In thousands of US dollars except per share amounts*	**2021**	2020
Combined federal and provincial statutory income tax	**14,452**	20,889
Foreign tax differential	**(1,377)**	(890)
Effect of permanent differences	**(1,124)**	374
Change in tax rates and new legislation	**(199)**	(186)
Difference arising on filing and assessments	**(543)**	3
Deductible temporary differences not recognized	**(3,464)**	2,367
Other	**84**	10
Total expense	**7,829**	22,567
The components of the provision for income taxes are as follows:		
Current	**6,847**	25,943
Deferred	**982**	(3,376)
Total	**7,829**	22,567

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows:

December 31 *In thousands of US dollars*	**2021**	2020
Deferred income tax assets:		
Non-capital income tax loss carry-forwards	**4,353**	2,400
Deferred income tax deductions relating to long-term liabilities	**169**	191
Equity Compensation	**2,479**	647
Alternative minimum tax	**–**	–
Financing fees	**55**	–
Capital assets	**113**	122
Reserve	**4,187**	5,949
Other	**429**	442
	11,785	9,751
Deferred income tax liabilities:		
Reserve	**(133)**	–
Capital assets	**(14,821)**	(9,350)
Other	**(428)**	(138)
	(15,382)	(9,488)
Net deferred income tax liabilities	**(3,597)**	263
Recorded on the consolidated statement of financial position:		
Deferred income tax assets	**–**	3,973
Deferred income tax liabilities	**(3,597)**	(3,710)
Net	**(3,597)**	263

In assessing the recognition of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the period in which the temporary differences are deductible.

Management considers the scheduled reversals of deferred income tax liabilities, the character of the income tax asset and the tax planning strategies in making this assessment. Management would not recognize deferred income tax assets if the more likely than not realization criterion is not met.

The Company has $42,087 of unused tax losses (2020: $42,935) available to offset future income taxes in the US. Losses incurred prior to 2018 were set to expire starting 2037, while losses incurred in 2018 and after can be carried forward indefinitely.

The aggregate amount of taxable temporary differences associated with investments in subsidiaries, branches and associated and interests in joint ventures, for which no deferred income tax liabilities have been recognized, is $55,734 (2020: deductible temporary differences of $32,304).

Deferred tax assets have not been recognized in respect of the following items, because it is not probable that future taxable profit will be available against which the Company can use the benefits therefrom.

December 31	**2021**		2020	
In thousands of US dollars	**Gross amount**	**Tax effect**	Gross amount	Tax effect
Capital losses	**575**	**72**	918	142
Operating losses	**24,608**	**5,168**	31,850	6,688
Deductible temporary differences	**10,523**	**2,507**	17,691	3,759
	35,706	**7,747**	50,459	10,589

NOTE 19 GOVERNMENT ASSISTANCE

During 2020, Rubber Solutions recognized a grant of $500 as a reduction of capital assets.

Scientific research and investment tax credits of $813 were recognized in 2021 (2020: $1,177); research and development costs were reduced accordingly.

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 a result of COVID-19. The Company applied for CEWS and recorded the subsidy as a reduction to cost of sales and operating expenses of $2,380 and $569 (2020:$7,216 and $1,654), respectively, in the consolidated statement of profit.

NOTE 20 COMMITMENTS AND CONTINGENCIES

Commitments

The Company has purchase commitments of $32,015 (2020: $15,361) for raw materials. Delivery on these commitments is expected in 2022.

Litigation

No legal provisions are recognized at December 31, 2021 and 2020. The Company is occasionally named as a party in various claims and legal proceedings, which arise during the normal course of its business. The Company reviews each of these claims, including the nature of the claim, the amount in dispute or claimed and the availability of insurance coverage. Although there can be no assurance that any particular claim will be resolved in the Company's favour, management does not believe that the outcome of any claim or potential claims of which it is currently aware will have a material adverse effect on the Company.

NOTE 21 POST RETIREMENT BENEFITS

The Company provides post retirement life insurance benefits to eligible retirees ("Benefit Plan"). The post-retirement life insurance benefits under the other benefit plan are for non-unionized and unionized employees of ADG Canada, which are unfunded defined benefit plans covering life insurance.

The methods of accounting, assumptions and frequency of valuations for Benefit Plan are similar to those used for defined benefit pension schemes. This plan is funded through proceeds from an insurance policy. Total estimated contribution to this plan for the next fiscal year is $20. This plan is unfunded as such there is no plan asset to be disclosed. At December 31, 2021, the weighted average duration of the defined benefit obligation was 10 years (2020: 11 years).

The Benefit Plan exposes the Company to actuarial risks, such as interest rate risk and longevity risk.

December 31 *In thousands of US dollars*	**2021**	2020
Statement of Financial Position obligations for Benefit Plan	**579**	664
Statement of Profit charge for Benefit Plan	**(76)**	164

December 31 *In thousands of US dollars*	**2021**	2020
Present value of unfunded obligation and Liability in the Statement of Financial Position	**579**	664
Movement in the defined benefit obligation is as follows:		
At January 1	**664**	510
Current service cost	**3**	3
Interest cost	**15**	14
Benefit payment	**(30)**	(94)
Actuarial (gain)/loss	**(76)**	218
Foreign currency translation	**3**	13
	579	664
At December 31		
The amounts recognized in the Statement of Profit is as follows:		
Post-retirement benefits (recovery)/expense	**(94)**	136
Interest cost	**15**	15
Foreign currency translation	**3**	13
Expense (recovery)	**(76)**	164

The current service charge was included in "general and administrative expense" and the interest cost is included in "finance costs" in the income statement.

December 31 *In thousands of US dollars*	**2021**	2020
The principal actuarial valuation assumptions used were as follows:		
Discount rate	**2.85%**	2.35%
Mortality	**CPM mortality table projected with scale MI-2017 for the private sector**	CPM mortality table projected with scale MI-2017 for the private sector
Retirement age: Percentage of members with spouses at retirement	**N/A**	N/A

The sensitivity of the Benefit Plan to changes in assumptions is set out below. The sensitivity analysis was performed by changing each assumption individually. If actual changes occur, some of these assumptions are likely to be correlated and result in a combined impact.

Fiscal Year ending December 31	**2021**	2020
Effect of an increase of 1%		
Post-employment benefit obligation	**(54)**	(66)
Effect of a decrease in 1%		
Post-employment benefit obligation	**66**	83
Mortality Sensitivity Analysis		
Effect of an increase of 10% on mortality rates		
Post-employment benefit obligation	**2**	7
Effect of a decrease of 10% on mortality rates		
Post-employment benefit obligation	**(3)**	(8)

Defined Contribution Plan

AirBoss of America Corp. maintains a registered retirement savings plan defined contribution plan for all of their employees. Total contribution and expense to this plan for 2021 were $450 (2020: $420).

AFP maintains a 401(k) defined contribution plan for its employees. Total contributions and expense to this plan during 2021 were $505 (2020: $512).

ANC maintains a 401(k) plan for its employees. Total contributions and expense to this plan during 2021 were $98 (2020: $78).

ADG USA maintains a 401(k) defined contribution plan for its employees. Total contributions and expense to this plan during 2021 were $151 (2020: $106).

ADG Canada employees are covered under various registered and unregistered defined contribution plans. Total contribution and expense to these plans for 2021 were $210 (2020: $217).

CSI maintains a 401(k) defined contribution plan for its employees. Total contribution and expense to these plans for 2021 were $133 (2020: $271).

B3 maintains a 401(k) defined contribution plan for its employees. Total contribution and expense to these plans for 2021 were $45.

Multi-Employer Pension Plan

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

(a) Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

(b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

(c) If the Company chooses to stop participating in the multi-employer plan, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

During 2021, the Company made contributions of $281 (2020: $257) to the multi-employer pension plan. The unfunded vested benefit ratio was 33.3% at December 31, 2021 (2020: 12.8%). The Steel Workers Pension Trust was in a net deficit at December 31, 2021 and the Company's portion of the deficit was unknown. The collective bargaining agreement requires that the Company contributes $0.40 for each hour worked by eligible employees during the preceding wage month.

NOTE 22 SEGMENTED INFORMATION

The Company's operating segments are organized into the following reportable segments:

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

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

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

For the year ended December 31	AirBoss Defense Group		Rubber Solutions		Engineered Products		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Segment net sales	**329,916**	302,278	**171,553**	119,090	**116,621**	114,557	**–**	–	**618,090**	535,925
Inter-segment net sales	**(4,565)**	(4,275)	**(18,492)**	(17,824)	**(8,175)**	(12,254)	**–**	–	**(31,232)**	(34,353)
External net sales	**325,351**	298,003	**153,061**	101,266	**108,446**	102,303	**–**	–	**586,858**	501,572
Depreciation, amortization, and impairment	**10,405**	11,488	**4,903**	3,351	**5,330**	5,837	**243**	338	**20,881**	21,014
Segment measure of profit (loss)	**74,998**	87,846	**11,125**	11,452	**(11,229)**	(7,166)	**(16,184)**	(9,935)	**58,710**	82,197
Finance costs									**(4,178)**	(3,368)
Income tax expense									**(7,829)**	(22,567)
Profit									**46,703**	56,262
Segment assets	**205,240**	198,450	**146,237**	82,150	**83,292**	75,597	**8,495**	11,172	**443,264**	367,369
Segment liabilities	**69,571**	42,396	**32,115**	25,856	**23,565**	22,788	**82,865**	81,741	**208,116**	172,781
Capital additions	**8,613**	5,455	**6,113**	3,840	**6,722**	5,665	**1,137**	646	**22,585**	15,606

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.

For the year ended December 31	**2021**		2020	
In thousands of US dollars	**Net sales**	**Non-current assets**	Net sales	Non-current assets
Canada	**47,295**	**62,278**	62,686	45,357
United States	**497,875**	**153,100**	409,728	113,287
Other countries	**41,688**	**–**	29,158	–
	586,858	**215,378**	501,572	158,644

Major customers

Net sales from one customer represent approximately 40% (2020: 19%) of consolidated net sales in 2021. Five customers represented 56% (2020: 48%) of consolidated net sales in 2021.

Major Products

In thousands of US dollars	**2021**	2020
AirBoss Defense Group		
Defense	**291,621**	271,429
Industrial	**33,730**	26,574
	325,351	298,003
Rubber Solutions		
Tolling	**8,643**	7,315
Mixing	**144,418**	93,951
	153,061	101,266
Engineered Products	**108,446**	102,303
	586,858	501,572

NOTE 23 RELATED PARTIES

Related Party Transactions

During the year, the Company paid rent for the corporate office of CAD $180 (2020: CAD $180) to a company controlled by the CEO and Chairman of the Company.

During the year, the Company paid fees for the use of a facility in South Carolina of approximately $28 (2020: $29) to a company in which the CEO and Chairman is an officer.

Transactions with key management personnel

Key management includes directors, CEO, President and COO, CFO, and senior management. The compensation expense to key management for employee services is shown below:

December 31 *In thousands of US dollars*	**2021**	2020
Salaries and other short-term benefits	**6,297**	4,840
Share-based payment expense	**8,332**	2,200
	14,629	7,040

The amounts disclosed in this table are the amounts recognized as operating expenses for accounting purposes during the period and do not necessarily represent amounts receivable or received in cash.

Key management own 21.0% of the outstanding common shares as at December 31, 2021 (2020: 20.5%).

In December 2016, the Company provided a share purchase loan of CAD $250 to the former Chief Financial Officer that was repaid in June 2020. In March 2018, the Company provided a share purchase loan of CAD $500 to the President and Chief Operating Officer. On June 28, 2019, the Company provided share purchase loans of CAD $300 to the Executive Vice President, General Counsel; and CAD $92 to the President and Chief Operating Officer. All loans are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities, or the fifth anniversary of the issuance date. All share purchase loans issued prior to 2019 bear interest at 1% annually and all subsequent loans share purchase loans bear interest at 2% annually. In all cases, loans are full recourse and interest is due and payable semi-annually. In total, 86,807 shares of the Company having a fair value of $3,165 were pledged as collateral on these loans. At December 31, 2021, the loan receivables of $710, including accrued interest, were included in Other Assets on the statement of financial position. During the year, interest revenue of $7 (2020: $15) was received.

NOTE 24 FINANCIAL INSTRUMENTS

Financial risk management

The Company's activities result in exposure to a variety of financial risks, including risks related to commodity prices, currency fluctuation, interest rates, credit and liquidity.

Market Risk

Commodity prices and supplies

The Company's financial performance depends on certain outside sources for raw materials, including carbon black, synthetic and natural rubber, chemicals for rubber mixing, steel and silicone used in the production of its products. The price and availability of these raw materials are subject to fluctuations from such factors as weather, exchange rates, the price of oil, changes in industry production capacity, changes in world inventory levels and other factors beyond the Company's control.

The Company manages its commodity price and supply risk by matching purchase commitments to its customers' requirements during term of the price quote, generally ranging from 1 to 3 months and maintains supply sources in different areas of the world.

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements; such contracts are not settled net.

The following table approximates the financial impact, (assuming changes are not passed along to its customers), on the Company of a 10% increase in the cost of its most critical raw materials based upon purchases made in the respective years:

	Earnings before tax	
in millions of US dollars	**2021**	2020
Natural and synthetic rubber	**(7.27)**	(4.81)
Chemicals (Rubber mixing)	**(3.64)**	(2.70)
Steel	**(2.55)**	(2.28)
Carbon black	**(2.45)**	(1.90)
Silicone	**(0.75)**	(0.81)
	(16.66)	(12.50)

A portion of the Company's products are sold at prices denominated in CAD dollars or based on prevailing CAD dollar prices; most of the raw material purchases are denominated in US dollars and a significant portion of its operational costs and expenses are incurred in Canadian dollars. Therefore, an increase in the value of the US dollar relative to the Canadian dollar decreases the net sales in US dollar terms realized by the Company from sales made in Canadian dollars, partially offset by lower Canadian dollar operational costs/expenses, which decreases operating margin and the cash flow available to fund operations. The net Canadian monetary assets of its Canadian operations represent a currency risk as the balances are re-measured at the month end spot rate creating an unrealized exchange gain or loss.

The Company manages its currency risk relating to monetary assets and liabilities denominated in Canadian dollars by increasing or decreasing the proportion of operating or term loan denominated in Canadian funds or forward currency contracts. The Rubber Solution segment's profit and loss is somewhat naturally hedged in that sales denominated in US dollars offset US dollar expenses and debt service costs.

The following table approximates the following impact on the Company of a $0.10 decrease in the value of one Canadian dollar in US currency:

	Earnings before tax	
in millions of US dollars	**2021**	2020
Sales (1)	**(1.8)**	(3.9)
Purchases (2)	**6.5**	5.2

(1) Based upon Canadian dollar-denominated sales
(2) Based upon Canadian dollar-denominated purchases and expenses

Interest Rate Risk

The Company's interest rate risk mainly arises from the interest rate impact on cash and floating rate debt. Canadian dollar borrowings are on a fixed rate basis. The US dollar borrowings are on a variable rate basis. The Company has no formal policy to manage a certain proportion of borrowings on a fixed rate basis.

In December 2020, the Company entered into an interest rate swap agreement for a notional amount of $28,125 ($26,250 as at December 31, 2021) amortizing down to $24,375 at maturity on January 1, 2023. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 0.265%. This swap agreement replaces an old swap agreement that matured in December 2020 that calculated interest based on the difference between the floating rate of USD LIBOR and the fixed rate of 1.69%.

During 2021, interest expense on the swap agreements was $44 (2020: $264).

At December 31, 2021, the fair value of this agreement, representing a gain of $48 (2020: loss of $57), is included in loans and borrowings on the statement of financial position. The change in the fair value, representing a gain of $105 (2020: loss of $37), is recorded on the statement of profit as finance costs.

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

At the reporting date, the interest profile of the Company's interest-bearing financial instruments was:

December 31 *In thousands of US dollars*	**2021**	2020
Fixed rate instruments		
Financial assets	**709**	1,324
Financial liabilities	**(13,649)**	(28,539)
Variable rate instruments		
Financial liabilities	**(63,164)**	(55,788)
Total	**(76,104)**	(83,003)

Fair value sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates for the year would have increased or decreased net income and equity by:

	Net income and equity	
In thousands of US dollars	100bp increase	100bp decrease
2021		
Variable rate instruments	**(374)**	**374**
2020		
Variable rate instruments	7	(7)

This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

Credit Risk

The Company held cash and cash equivalents of $7,131 at December 31, 2021 (2020: $86,970), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A- to AA-, based on Standard and Poor's ratings.

The Company sells its products to a variety of customers under various payment terms in the normal course of its operations and therefore is exposed to credit risks. The Company's exposure to credit risk is influenced by general economic conditions, the default risk of the industry and the relative concentration of business. A majority of the Company's trade receivables are derived from sales to distributors and manufacturers who have been transacting with the Company for over five years. In monitoring credit risk, the Company considers industry, volume and aging trends (see note 7), maturity and other relevant factors. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. Purchase limits established for certain accounts represent the maximum open balance permitted without approval from the CEO. The Company maintains reserves for potential credit losses relating to specific exposures, and any such losses to date have been within management's expectations. Net sales from one customer represent approximately 40% (2020: 19%) of consolidated net sales in 2021. Five customers represented 56% (2020: 48%) of consolidated net sales in 2021.The loss of any such customers or the delay or cancellation of any orders under certain high-volume contracts could have a significant impact on the Company.

The Company believes that its five significant customers are credit worthy and has not recorded a provision for credit risk relating to these accounts.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions.

The Company manages liquidity by maintaining adequate cash balances, having appropriate lines of credit available and monitoring cash requirements to meet expected operational expenses, including debt service and capital requirements. In addition, the Company maintains a facility permitting the Company an accordion feature of up to an additional $75,000 availability, upon the satisfaction of customary conditions for such features. At year end, the Company had cash of $7,131 and had drawn $65,713 against its $250,000 revolving credit facilities (2020: cash of $86,970 and had drawn $723).

Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, share purchase loans, convertible promissory note, demand loan, accounts payable and accrued liabilities, interest rate swap, term loan and other debt and foreign exchange hedges. The fair values of cash and cash equivalents, accounts receivable, share purchase loans, accounts payable and accrued liabilities, contingent consideration, interest rate swap and foreign exchange hedges, as recorded in the consolidated balance sheets approximate their carrying amounts due to the short-term maturities of these instruments. The fair value of the long-term loan has been discounted using current market interest rates.

The carrying value and fair value are as follows:

December 31, 2020

In thousands of US dollars	**Amortized cost**	**Fair value through profit and loss**	**Total carrying amount**	**Total fair value**
Cash and cash equivalents	7,131	–	7,131	7,131
Trade and other accounts receivable	82,440	–	82,440	82,440
Interest rate swap	–	48	48	48
Share Purchase loans	709	–	709	709
Total financial assets	90,280	48	90,328	90,328
Trade and other payables	102,973	–	102,973	102,973
Interest rate swap	–	–	–	–
Foreign Exchange Hedge	–	53	53	53
Loans and borrowings	80,611	–	80,611	83,761
Contingent consideration	–	8,719	8,719	8,719
Total financial liabilities	183,584	8,772	192,356	195,506

December 31, 2020

In thousands of US dollars	**Amortized cost**	**Fair value through profit and loss**	**Total carrying amount**	**Total fair value**
Cash and cash equivalents	86,970	–	86,970	86,970
Trade and other accounts receivable	68,602	–	68,602	68,602
Foreign Exchange Hedge	–	620	620	620
Share Purchase loans	704	–	704	704
Total financial assets	156,276	620	156,896	156,896
Trade and other payables	74,295	–	74,295	74,295
Interest rate swap	–	57	57	57
Loans and borrowings	90,677	–	90,677	92,574
Total financial liabilities	164,972	57	165,029	166,926

The fair value of the share purchase loans and long-term loan has been based on market interest rate (level 2) in 2021 and 2020. The Company has not disclosed the fair values for financial instruments (trade and other accounts receivable and other liabilities) as their carrying amounts approximate their fair values (level 3). There were no reclassifications between classes of financial assets and financial liabilities in 2021 and 2020. There were no transfers between levels of the fair value hierarchy in 2021 and 2020.

Capital Management

The Company has defined its capital as follows:

December 31

In thousands of US dollars	**2021**	2020
Loans and borrowings	**80,563**	90,734
less: leases included in loans and borrowings	**(17,399)**	(13,482)
less: cash and cash equivalents	**(7,131)**	(86,970)
Net debt	**56,033**	(9,718)
Shareholders' equity	**235,148**	194,588
	291,181	184,870

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.

The Company's business is cyclical and it experiences significant changes in cash flow over the business cycle. In addition, the Company's financial performance can be materially influenced by changes in the relative value of the Canadian and US dollar.

The Company's fundamental objective in managing capital is to ensure adequate liquidity and financial flexibility at all times, but particularly at the bottom of the business cycle and in a strong Canadian dollar environment. The Company constantly monitors and assesses its financial performance in order to ensure that its net debt levels are prudent, taking into account the anticipated direction of the business cycle. When reviewing financing decisions, the Company considers the impact of debt and equity financing on its existing and future shareholders.

The Company has established a $250,000 committed revolving line of credit that provides liquidity and flexibility when capital markets are restricted.

Key management currently own 21.1% of the outstanding shares of the Company. Each Director is required to hold Common Shares and/or DSUs valued, at the time(s) of purchase or issuance, as applicable, at three times the annual base cash retainer entitlement. Directors have a period of five years from the date of their election to the Board to achieve the minimum shareholding requirement. There is no plan to extend availability of options beyond key management and senior employees. The Company has a dividend policy to provide an additional return to shareholders; the decision to pay dividends is reviewed quarterly.

In December 2021, the Company renewed its normal course issuer bid ("NCIB") to purchase up to 500,000 of its common shares, representing approximately 1.9% of the Company's public float. The Company purchased nil shares (2020: nil) under its NCIB in 2021.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Corporate Information

Board of Directors

Mary Matthews, CPA, CA, ICD.D. (1) (2) (3)
Toronto, Ontario

Robert L. McLeish (1) (2) (3)
Aurora, Ontario
Port Carling, Ontario

Brian A. Robbins (1)
President and CEO, Exco Technologies Limited
Aurora, Ontario

Anita Antenucci
Upperville, Virginia

P. Grenville Schoch
Chairman and CEO, AirBoss of America Corp.
Aurora, Ontario

David Camilleri (1)
Waterloo, Ontario

Alan J. D. Watson (2) (3)
Sydney, Australia

Stephen Ryan (2)
Washington, D.C.

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of Corporate Governance Committee

Corporate Information

Solicitors

Davies Ward Phillips & Vineberg LLP
Toronto, Ontario

Auditors

KPMG LLP
Toronto, Ontario

Transfer Agent And Registrar

Computershare Investor Services, Inc.
Toronto, Ontario

Stock Symbol Toronto Stock Exchange: BOS
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Email Address: info@airboss.com

Our Annual Meeting is Thursday, May 13, 2021
at 9:00am at: AirBoss Rubber Solutions
101 Glasgow Street, Kitchener, Ontario

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

President and Chief Operating Officer:
Chris Bitsakakis

Chief Financial Officer:
Frank Ientile

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