



# Second Quarter Interim Report

AirBoss of America Corp. is one of North America's largest custom compounding companies. We develop, manufacture, and sell high-quality proprietary rubber-based products offering enhanced performance and productivity to transportation, defence and industrial markets. AirBoss has a capacity to supply 250 million pounds of rubber annually to a diverse group of rubber manufacturers. We are dedicated to unequalled excellence in the manufacturing of our high performance proprietary rubber-based products.

### Rubber Compounding

Manufactures custom compounds from natural and synthetic rubber gum, binding agents, and chemicals. Uses state of the art equipment, technical staff, and strong customer focus to achieve consistent on-time service customers can depend on.

### Defense and Industrial Products (“AEP”)

Manufacturer of chemical, biological, radiological and nuclear (“CBRN”) protective wear for defense and first response applications. Manufactures extruded, calendered, cushion gum, and compression moulded rubber products.

# To Our Shareholders

## **AirBoss Rubber Compounding**

Volume increased by 11% compared to the same quarter in 2010 and by 37% year-to-date. Volume was somewhat constrained in the quarter by mechanical issues in North Carolina. Accordingly we anticipate further volume increases in the third quarter as these issues are alleviated. Currently this business is on pace for record volumes, triggered by strong demand for toll mixing from major tire companies as well as in the product diverse mining sector which includes heavy duty belting and off road tire retreading.

Dollar revenues are up sharply due to the volume increases but also as a result of price increases required to pass along sharply inflating raw material costs. Prices in the quarter rose by approximately 20% in the second quarter alone. This has necessitated an increase in investment in working capital but this was accomplished without disturbing unused lines of credit. The consensus opinion appears to be that raw materials are expected to stabilize at these high levels over the next few months barring any dramatic change in world demand.

The new Product Development center in Raleigh, NC was officially opened at the end of the quarter and we expect this initiative to begin to contribute tangibly by the end of the year. With improvement in NC plant utilization and stabilization of raw materials we expect to see further improvement in bottom line performance in the third quarter.

## **AirBoss Engineered Products**

The Industrial products division turned in its best quarterly performance in several years as a result of processing overflow demand from the Rubber Compounding group and continued high demand for engineered rubber used in the making of recreational and industrial rubber tracks. New equipment installed at the end of the first quarter is running well and has contributed to increased operating efficiency.

Sales of military products for the first three quarters of this year are largely covered by existing orders. We are near finalization of new contracts with the US DoD. Signing of the contract is expected shortly, however the exact levels of funding of these contracts and the issuing of orders against them will not be determined until a later date. The US is a material customer of the AirBoss CBRN products.

Sales of gas masks are increasing in non-traditional markets as buyers are attracted by one of the top performing mask designs in the world, the only mask available in non-heat attracting colours at a price which fits with strained military budgets.

Production in Vermont and Kitchener for gloves and the new "MALO" overshoe continues at high levels of efficiency as does production in Acton-Vale for the footwear. We have signed an agreement with the leader in firefighting equipment in North America to manufacture a high end line of rubber fire-boots specifically for this market. This should triple production to between 40,000 and 50,000 pairs annually starting late in 2011.

## Q2 2011 Highlights:

- Record quarterly earnings - \$0.19 per share
- Record first half earnings - \$0.37 per share
- YTD net income increases by 42%
- YTD sales increase by 32%

## Outlook

The outlook for the Rubber Compounding division continues to be excellent as demand in key sectors such as tires, belting and mining products remains strong. Raw material prices remain high but have stabilized in the short term. The Company has secured supply of key synthetic polymers into the fourth quarter for certain customers who have taken advantage of joint purchasing initiatives. Sales increases are anticipated as a result of improved capacity utilization in North Carolina.

The Company anticipates military and industrial rubber product sales will remain at existing levels for the third quarter. Military product sales in the fourth quarter will be impacted by end of 2011 budget year spending which remains uncertain at this time. We anticipate signing new US DoD contracts for CBRN products confirming our sole supply position on certain footwear and hand wear, however due to budget constraints, the extent to which these contracts will be funded over the remainder of 2011 and into 2012 is unknown. With the potential for reduced purchasing from the US, the Company is encouraged by the prospects of pending business with non-traditional markets that could help to smooth out gaps, if any. The Industrial rubber products market is expected to continue to be strong for the remainder of the year.

The financial position of the Company continues to be strong. The Company has easily dealt with the increased demands for working capital triggered by the significant increases in raw material prices without straining substantial unused credit facilities. This provides a very flexible position from which to look at acquisitions. It also prompted the Company to raise its dividend rate to \$0.15 annually effective with the second quarter dividend.



**P.G. Schoch**  
Chairman



**R.L. Hagerman**  
President and CEO

## 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 August 10, 2011 and should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements and Notes for the three-month and six-month periods ended June 30, 2011 and the MD&A for the year ended December 31, 2010. The consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial reporting*. These are the Company's second International Financial Reporting Standards (IFRSs) condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. All tabular dollar amounts are shown in thousands of US dollars unless otherwise specified. Additional information regarding the Company, including its Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.airbossamerica.com](http://www.airbossamerica.com).

**Forward-Looking Statements** – Certain statements included herein, including those that express management's expectations or estimates of future developments or AirBoss' future performance constitute "forward-looking statements" within the meaning of applicable securities laws. Words such as "may", "could", "expects", "anticipates", "forecasts", "plans", "intends" or similar expressions are intended to identify forward-looking statements.

Forward-looking statements are necessarily based upon a number of 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 uncertainties and contingencies. AirBoss cautions that such forward-looking statements involve known and unknown risks, 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 those forward-looking statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements, including without limitation: changes in accounting policies and methods including uncertainties associated with critical accounting assumptions and estimates; AirBoss' ability to maintain existing customers or develop new customers in light of increased competition; 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; potential product liability and warranty claims; its dependence on key customers; equipment malfunction; changes in the value of the Canadian dollar relative to the US dollar; ability to obtain financing on acceptable terms; environmental damage caused by it and non-compliance with environmental laws and regulations; changes in tax laws and potential litigation; and the impact of general economic conditions.

This list is not exhaustive of the factors that may affect any of AirBoss' forward-looking statements. Investors are cautioned not to put undue reliance on forward-looking statements. All subsequent written and oral forward-looking statements attributable to AirBoss or persons acting on its behalf are expressly qualified in their entirety by this notice. Whether as a result of new information, future events or otherwise, AirBoss disclaims any intent or obligation to update publicly these forward-looking statements. Risks and uncertainties about AirBoss' business are more fully discussed under the heading "Risk Factors" section of the Company's annual report on pages 17-29.

### Highlights

- Record Quarter. EPS increased by 68% to \$0.19
- Dividend raised to \$0.15 per share, annually
- Continued strong performance by Rubber Compounding and AEP
- R&D tax credits add \$0.02 per share

## MD&amp;A (cont'd)

## Selected Financial Information

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
<b>Financial results:</b>				
Net sales	\$ 77,535	\$ 60,983	\$ 147,757	\$ 112,085
Net income	4,527	2,721	8,824	6,195
Net income per share				
– Basic	0.19	0.11	0.37	0.26
– Diluted	0.19	0.11	0.37	0.26
EBITDA (non-IFRS financial measure)	7,996	5,643	15,990	11,952
Net cash provided by (used in) operating activities	(7,145)	5,225	(8,266)	1,527
Dividends declared per share	\$ 0.0375	\$ 0.03	\$ 0.0675	\$ 0.05
Capital expenditures	840	495	1,528	884
			<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>Financial position:</b>				
Total assets			\$ 148,216	\$ 133,783
Term loan and other debt			23,723	23,829
Shareholders' equity			78,742	71,276
Outstanding shares			23,657*	23,613
			<i>*23,643 at August 10, 2011</i>	

## Non-IFRS Financial Measures

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

EBITDA Earnings before interest income, interest expense, income taxes and depreciation and amortization

EBITDA, a non-IFRS measure, is directly derived from the consolidated financial statements, but does not have a standardized meaning prescribed by IFRS and is not necessarily comparable to a similar measure presented by other issuers.

The Company discloses EBITDA, a financial measurement used by interested parties and investors to monitor the ability of an issuer to generate cash from operations for debt service, financing working capital and capital expenditures and pay dividends. EBITDA is not a measure of performance under IFRS and should not be considered in isolation or as a substitute for net income under IFRS.

A reconciliation of this measure is presented below:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
<b>EBITDA:</b>				
Net Income	\$ 4,527	\$ 2,721	\$ 8,824	\$ 6,195
Net financing interest expense	377	408	730	794
Depreciation and amortization	1,210	1,156	2,371	2,177
Provision for income taxes	1,882	1,358	4,065	2,786
EBITDA	\$ 7,996	\$ 5,643	\$ 15,990	\$ 11,952

## MD&amp;A (cont'd)

## RESULTS OF OPERATIONS – 2011 compared to 2010

## NET SALES FROM CONTINUING OPERATIONS

Net Sales increased by 27.1% in 2011 primarily from higher compounding volumes.

Three months ended June 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Total
Net sales	<b>2011</b> 2010	<b>57,512</b> 42,091	<b>20,023</b> 18,892	<b>77,535</b> 60,983
Increase \$		15,421	1,131	16,552
Increase %		36.6	6.0	27.1

Six months ended June 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Total
Net sales	<b>2011</b> 2010	<b>109,336</b> 75,297	<b>38,421</b> 36,788	<b>147,757</b> 112,085
Increase \$		34,039	1,633	35,672
Increase %		45.2	4.4	31.8

**Rubber Compounding**

Quarterly sales revenue increased 37% attributable to an increase in volumes of 11% and price increases due to rapidly escalating raw material prices. Capacity was constrained in the quarter by equipment breakdowns in North Carolina. Volumes should increase in the third quarter with the elimination of these issues.

Sales increased by 45% for the six-month period ended June 30, 2011 compared to the same period in 2010. Volume increased by 35% including 18% due to toll mixing for tire companies and 17% for other sectors including belting and mining. The remainder of the increase is due to the recovery of higher raw material costs. Prices are expected to stabilize at the current higher levels throughout the third quarter.

**AirBoss Engineered Products**

AirBoss Engineered Product sales increased by \$1.1 million in the quarter and \$1.6 million for the six-month period compared to 2010.

On a year-to-date basis, Industrial Products volumes increased 14% primarily in calendared rubber for light construction and recreational rubber track and rubber compounds for defense industry parts suppliers. Price increases related to raw materials also contributed to the higher revenues. These increases were partially offset by lower Defense product sales related to CBRN protective footwear.

Defense product sales are anticipated to remain at current levels throughout the third quarter of 2011. Due to the uncertainty of the availability of military funding in the Company's traditional markets increased emphasis is being placed on new markets. We anticipate being in position to finalize a new short term US contract to supply CBRN products by the end of the third quarter. As of this date we are uncertain to what extent this contract will be funded and therefore to what extent purchase orders will be issued against it.

## MD&amp;A (cont'd)

## GROSS MARGIN

Gross margin for the quarter ended June 30, 2011 was \$10 million, an increase of \$1.5 million over the 2010 amount of \$8.5 million. This was primarily attributable to higher volumes in Rubber Compounding.

Three months ended June 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Total
Gross Margin	<b>2011</b>	<b>4,277</b>	<b>5,706</b>	<b>9,983</b>
	2010	3,192	5,288	8,480
Increase \$		1,085	418	1,503
% of net sales	<b>2011</b>	<b>7.4</b>	<b>28.5</b>	<b>12.9</b>
	2010	7.6	28.0	13.9

  

Six months ended June 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Total
Gross Margin	<b>2011</b>	<b>9,656</b>	<b>11,290</b>	<b>20,946</b>
	2010	5,230	11,163	16,393
Increase \$		4,426	127	4,553
% of net sales	<b>2011</b>	<b>8.8</b>	<b>29.4</b>	<b>14.2</b>
	2010	6.9	30.3	14.6

## Rubber Compounding

Gross margin for Rubber Compounding increased by \$1.1 million in the quarter and \$4.4 million year-to-date compared to 2010 from higher volumes. Spot purchasing of raw materials due to shortages and equipment breakdowns in North Carolina resulted in lower margins at the beginning of the quarter compared to the first quarter of the year. Improvement is anticipated for the third quarter as supply lines and prices have stabilized.

Total pounds shipped included 16 million pounds of toll mixing which impacts margins as a percentage of sales as the sales price does not include raw materials.

## AirBoss Engineered Products

Total gross margin for AirBoss Engineered Products increased by \$418 thousand in the quarter ended June 30, 2011 and by \$127 thousand year-to-date. This was primarily due to the higher volumes of Industrial Products.

## OPERATING EXPENSES

Operating expenses increased for the year by approximately \$0.7 million (net of recognizing \$0.5 million of R&D tax credits on filing its tax returns).

Three months ended June 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Operating expenses	<b>2011</b>	<b>1,495</b>	<b>1,370</b>	<b>332</b>	<b>3,197</b>
	2010	1,218	2,571	204	3,993
Increase (decrease) \$		277	(1,201)	128	(796)
% of net sales	<b>2011</b>	<b>2.6</b>	<b>6.8</b>	<b>N/A</b>	<b>4.1</b>
	2010	2.9	13.6	N/A	6.5

  

Six months ended June 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Operating expenses	<b>2011</b>	<b>2,989</b>	<b>2,718</b>	<b>1,620</b>	<b>7,327</b>
	2010	2,518	3,578	522	6,618
Increase (decrease) \$		471	(860)	1,098	709
% of net sales	<b>2011</b>	<b>2.7</b>	<b>7.1</b>	<b>N/A</b>	<b>5.0</b>
	2010	3.3	9.7	N/A	5.9

## MD&amp;A (cont'd)

**Rubber Compounding**

Year-to-date, Rubber Compounding expenses increased by \$471 thousand. Of this, \$22 thousand related to increased research and development initiatives and increased personnel cost of \$273 thousand related to the new North Carolina product development office, higher promotion and travel costs of \$108 thousand to support increased sales, and increased information system costs of \$62 thousand to support the change to IFRS reporting. This was offset by recognizing \$192 thousand in research and development tax credits on filing its 2010 Canadian tax returns.

The foreign exchange year-over-year is a loss of \$172 thousand.

**AirBoss Engineered Products**

Year-to-date, AEP's expenses decreased \$860 thousand. In 2010, legal expenses were incurred related to ongoing legal issues with the former owners (see Note 16 to the unaudited consolidated interim financial statements for June 30, 2011). A similar charge was not incurred in 2011 resulting in an overall decrease in legal expenses of approximately \$1 million. Research and development initiatives to support higher sales of Defense and Industrial Products increased expenses by \$568 thousand; these costs were reduced by \$334 thousand of research and development tax credits on filing its 2010 Canadian tax returns.

The foreign exchange year-over-year is a gain of \$111 thousand.

**Unallocated Corporate Costs**

Unallocated Corporate costs include additional costs for conversion to IFRS of \$105 thousand, other professional fees \$170 thousand and the impact of the stronger Canadian dollar.

**FINANCE COST**

Three months ended June 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Finance cost	<b>2011</b>	<b>214</b>	<b>135</b>	<b>28</b>	<b>377</b>
	2010	228	133	47	408
Increase (decrease) \$		(14)	2	(19)	(31)
% of net sales	<b>2011</b>	<b>0.4</b>	<b>0.7</b>	<b>N/A</b>	<b>0.5</b>
	2010	0.5	0.7	N/A	0.7
Six months ended June 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Finance cost	<b>2011</b>	<b>398</b>	<b>271</b>	<b>61</b>	<b>730</b>
	2010	457	274	63	794
Decrease \$		(59)	(3)	(2)	(64)
% of net sales	<b>2011</b>	<b>0.4</b>	<b>0.7</b>	<b>N/A</b>	<b>0.5</b>
	2010	0.6	0.7	N/A	0.7

Finance costs in 2011 were \$377 thousand in the quarter, \$730 thousand year-to-date (2010: \$408 thousand and \$794 thousand year-to-date) and was impacted by lower borrowing levels.

**INCOME TAX EXPENSE**

The Company recorded an income tax expense of \$4.1 million or an effective income tax rate for the year of 31.5% (31.0% in 2010).

We conduct business in the US and in Canada. Each jurisdiction is subject to different tax rates and the Company's effective tax rate varies quarter to quarter depending on the mix and volume of business in each jurisdiction as well as the impact of incentives, non-tax-deductible expenses, and the resolution of prior period tax assessments.

**NET INCOME AND EARNINGS PER SHARE**

Net income in 2011 amounted to \$4.5 and \$8.8 million for the quarter and year-to-date compared to \$2.7 and \$6.2 million in 2010 primarily attributable to stronger rubber compounding results. The basic and fully diluted net income per share in the second quarter and year-to-date were \$0.19 (2010- \$0.11) and \$0.37 (2010 - \$0.26) based on basic and fully diluted shares outstanding 23,628,596 (2010- 23,905,292) and 24,121,751 (2010 - 24,136,432) respectively.

## MD&amp;A (cont'd)

## QUARTERLY INFORMATION

Quarter Ended	Net Sales	Net Income		Net Income per share	
		Total	Basic	Diluted	
<b>2011</b>					
June 30, 2011	77,535	4,527	0.19	0.19	
March 31, 2011	70,222	4,297	0.18	0.18	
<b>2010</b>					
December 31, 2010	64,567	4,640	0.19	0.18	
September 30, 2010	58,443	3,676	0.15	0.15	
June 30, 2010	60,983	2,721	0.11	0.11	
March 31, 2010	51,102	3,474	0.15	0.14	
<b>2009 (In \$CAD, Canadian GAAP)</b>					
December 31, 2009	57,729	2,637	0.11	0.11	
September 30, 2009	50,562	3,820	0.16	0.16	

**Items impacting comparability of quarters**

- The quarters ended September 30, 2009 and December 31, 2009 have not been restated to IFRS and are as originally reported under Canadian GAAP and in Canadian dollars.

## LIQUIDITY AND CAPITAL RESOURCES

**Overview**

With increased profitability from its operating segments, AirBoss has been generating a reasonable amount of cash-flow from its operations. The funds have been used to invest in product research and capital expenditures as well as dividends to shareholders and term-debt repayment. The term-debt was primarily used to supplement funds from operations as required.

\$13,461 thousand of the term-debt matures October 2011 and the Company is reviewing its financing alternatives including utilization of its currently unused operating lines of credit. In the absence of increased working capital requirements due to commodity inflation, the Company expects to generate cash flows from operations in 2011.

The Company expects to fund its 2011 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.

In the first half of 2011, \$8,266 thousand of cash was used by operations, \$1,788 thousand was used for investing activities and \$2,073 thousand was used in financing activities. Cash and cash equivalents decreased by \$12,127 thousand from \$13,300 thousand to \$1,331 thousand.

**Operating activities**

Operating activities used cash of \$8,266 thousand in the first half of 2011, down from a source of \$1,527 thousand in the first half of 2010. The increased use of cash is a result of increased receivables and the increase in inventories in the first half of 2011. This is offset by higher operating income, lower income tax payments, and increased payables at June 30, 2011.

The investment in non-cash working capital was \$21,193 thousand in the first half of 2011. Rising raw material costs and higher volumes increased receivables, inventory and payables.

**Investing Activities****Property, Plant and Equipment**

During the first half of 2011, property, plant and equipment additions were \$1,528 thousand (2010: \$884 thousand) primarily for manufacturing equipment upgrades in AEP to support industrial products.

**Intangible assets**

Software development costs of \$260 thousand were capitalized in 2011 which included modifications to the system to support US functional currency reporting under IFRS.

**Other investments including derivatives**

At June 30, 2011, the Company had contracts to sell US \$21.75 million between July and December, 2011 for CAD \$21.3 million. The fair value of these contracts, representing a net gain \$0.4 million, is recorded on the statement of financial position included in other investments, including derivatives and foreign exchange gains and losses are recorded on the statement of income as other income (expense).

**Financing activities**

At June 30, 2011, AirBoss had \$23,723 thousand outstanding under its term facility. As part of this facility matures in October 2011, \$13,461 thousand has been classified as current on the June 30, 2011 consolidated statement of financial position. The Company is reviewing its financing alternatives including utilization of its currently unused operating lines of credit.

During the first half of 2011, the required principal payments of \$626 thousand (2010: \$644 thousand) were made pursuant to the loan agreement.

During 2011, the Company continued to manage its receivables and inventory levels and had no net drawings against its operating line. The unused line of credit is CAD \$35 million.

The Company expects to fund its 2011 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.

## **Commitments and contractual obligations**

### **Forward exchange contracts**

See other investments including derivatives above.

### **Government assistance**

AEP received grants of \$104 thousand in the quarter to support certain initiatives. On filing its tax return, the Company recognized \$573 thousand of R&D tax credits and \$146 thousand of equipment tax credits.

### **Dividends**

A \$0.03 per share quarterly dividend was declared in the first quarter and paid April 20, 2011 and \$0.0375 per share quarterly dividend was declared in the second quarter, paid July 20, 2011.

Dividends declared in all of 2010 were \$0.11 per common share.

### **Outstanding shares**

As at August 10, 2011, the Company had 23,642,224 common shares outstanding.

## **TRANSACTIONS WITH RELATED PARTIES**

The Company rents corporate office space from a company controlled by the Chairman of the Company. This lease provides for an annual rental of \$90 thousand payable monthly and expires in August 2012. The lease provides for the purchase of the building should certain events occur which are beyond the control of the Chairman. Lease payments for corporate office space paid to a company controlled by the Chairman of the Company were \$31 thousand (2010 - \$22.5 thousand) for the three-month period ending June 30, 2011 and \$54 thousand (2010 - \$43 thousand) for the six-month period.

The Company paid annual dues relating to a facility in South Carolina of approximately \$6 thousand (2010 - \$5 thousand) for the three-month period ended June 30, 2011 and \$11 thousand (2010 - \$9 thousand) during the year to a company in which the Chairman is an officer.

In 2009, the Company renewed a CAD\$150 thousand share purchase loan to an employee, due December 2, 2011 bearing interest at 2 ½% annually with full recourse and is included in the financial statements under the caption "current trade and other receivables", and 30 thousand shares of the Company having a fair value of CAD\$195 thousand were pledged as collateral.

## **CHANGES IN ACCOUNTING POLICIES**

### **Adoption of International Financial Reporting Standards**

The Company is required to prepare financial statements in accordance with IFRS starting with the first quarter of 2011 including comparative data for 2010.

Detailed notes on the changes to previously reported amounts are included in the notes to the unaudited consolidated financial statements for the period ended March 31, 2011 and June 30, 2011.

### **New standards and interpretations not yet adopted**

The Company has not applied the following new and revised IFRS' that have been issued but are not yet effective:

#### IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets

In October 2010 the IASB issued amendments to IFRS 7 Disclosures – Transfers of Financial Assets, which is effective for annual periods beginning on or after January 1, 2012. Disclosure requirements for transactions involving transfers of financial assets have increased to provide greater transparency around risk disclosure when an asset is transferred but the transferor retains some level of continuing exposure in the asset. The Company does not anticipate an impact.

#### IFRS 9 Financial Instruments

IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 is effective for fiscal years beginning on or after January 1, 2013 and introduces new requirements for the classification and measurement, and de-recognition of financial assets and financial liabilities. IFRS 9 requires all recognized financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. For financial liabilities designated as "fair value through profit and loss", fair value changes attributable to changes in credit risk is now recognized in other comprehensive income. At this time, management cannot provide a reasonable estimate of the effect until a detailed review has been completed.

#### IAS 12 Income taxes: Amendments regarding deferred taxes – Recovery of underlying assets

Effective for fiscal years on or after January 1, 2012, the measurement of deferred tax liabilities or deferred tax assets arising from a non-depreciable asset using the revaluation model in IAS 16 Property Plant and Equipment, and investment property using the fair value model in IAS 40 Investment Property shall reflect the tax consequences of recovering the amount through a sale regardless of the basis of measuring the carrying amount of that asset. The Company does not anticipate an impact.

IFRS 10 Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 10 has not yet been determined.

IFRS 11 Joint Arrangements

In May 2011, the IASB issued IFRS 11 Joint Arrangements, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 11 replaces the guidance in IAS 31 Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 11 has not yet been determined.

IFRS 13 Fair Value Measurement

In May 2011, the IASB published IFRS 13 Fair Value Measurement, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.

The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

Amendments to IAS 1 Presentation of Financial Statements

In June 2011, the IASB published amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income ("OCI"), which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. Early adoption is permitted. The amendments require that an entity present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently an entity that presents items of OCI before related tax effects will also have to allocate that aggregated tax amount between these categories. The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

Amendments to IAS 19 Employee Benefits

In June 2011, the IASB published an amended version of IAS 19 Employee Benefits. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted. The amendment is generally applied retrospectively with certain exceptions.

The amendments will require the following:

- Recognition of actuarial gains and losses immediately in other comprehensive income
- Full recognition of past service costs immediately in profit or loss
- Recognition of expected return on plan assets in profit or loss to be calculated based on the rate used to discount the defined benefit obligation

Additional disclosures that explain the characteristics of the entity's defined benefit plans and risks associated with the plans, as well as disclosures that describe how defined benefit plans may affect the amount, timing and uncertainty of future cash flows, and details of any asset-liability match strategies used to manage risks.

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

**LITIGATION**

In 2004, the Company commenced an Action in the Superior Court of Québec claiming funds due pursuant to the 1999 Agreement of Purchase and Sale whereby AirBoss acquired the assets of Acton International Inc. Part of the claim was settled pursuant to the filing in May 2007 of a Declaration of Settlement with one of the defendants for substantially the full amount of their 32% share of the Company's claims. The remaining claims amounted to CAD\$2.4 million plus accrued interest and were recorded as an offset to long-term debt owed to the vendors.

The trial in this matter took place before the Superior Court of Montreal in May and June 2010. In March 2011, the Company was notified that the superior court rendered a judgement in its favor allowing the parties to offset their respective claims. The Company has been informed that an appeal was filed relating to the Judge's decision to award the Company 100% of its claim for environmental costs reimbursement.

MD&A (cont'd)

**CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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

**OUTLOOK**

The outlook for the Rubber Compounding division continues to be excellent as demand in key sectors such as tires, belting and mining products remains strong. Raw material prices remain high but have stabilized in the short term. The Company has secured supply of key synthetic polymers into the fourth quarter for certain customers who have taken advantage of joint purchasing initiatives. Sales increases are anticipated as a result of improved capacity utilization in North Carolina.

The Company anticipates military and industrial rubber product sales will remain at existing levels for the third quarter. Military product sales in the fourth quarter will be impacted by end of 2011 budget year spending which remains uncertain at this time. We anticipate signing new US DoD contracts for CBRN products confirming our sole supply position on certain footwear and hand wear, however due to budget constraints, the extent to which these contracts will be funded over the remainder of 2011 and into 2012 is unknown. With the potential for reduced purchasing from the US, the Company is encouraged by the prospects of pending business with non-traditional markets that could help to smooth out gaps, if any. The Industrial rubber products market is expected to continue to be strong for the remainder of the year.

The financial position of the Company continues to be strong. The Company has easily dealt with the increased demands for working capital triggered by the significant increases in raw material prices without straining substantial unused credit facilities. This provides a very flexible position from which to look at acquisitions. It also prompted the Company to raise its dividend rate to \$0.15 annually effective with the second quarter dividend.

August 10, 2011



**R.L. Hagerman**  
President and Chief Executive Officer



**S.W. Richards**  
Vice-President Finance and CFO

## Consolidated Statement of Financial Position

### Unaudited

As at:

In thousands of US dollars

	Note	June 30, 2011	December 31, 2010
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,331	13,300
Trade and other receivables	6	49,126	30,376
Prepaid expenses		819	2,071
Inventories	7	45,144	34,319
Other investments, including derivatives		375	-
<b>Total current assets</b>		<b>96,795</b>	<b>80,066</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	41,761	42,467
Intangible assets	9	7,948	7,825
Other investments, including derivatives	10	143	139
Deferred income tax assets		1,569	3,286
<b>Total non-current assets</b>		<b>51,421</b>	<b>53,717</b>
<b>Total assets</b>		<b>148,216</b>	<b>133,783</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Loans and borrowings	15	13,566	13,971
Trade and other payables, including derivatives		35,687	27,218
Current income tax liabilities		782	1,913
<b>Total current liabilities</b>		<b>50,035</b>	<b>43,102</b>
<b>Non-current liabilities</b>			
Loans and borrowings	15	10,157	9,858
Employee benefits		3,482	3,310
Provisions	16	149	314
Deferred tax liabilities		5,651	5,923
<b>Total non-current liabilities</b>		<b>19,439</b>	<b>19,405</b>
<b>Total liabilities</b>		<b>69,474</b>	<b>62,507</b>
<b>Equity</b>			
Share capital	11	38,732	38,573
Contributed surplus	11	1,798	1,679
Retained earnings		38,212	31,024
<b>Total equity</b>		<b>78,742</b>	<b>71,276</b>
<b>Total liabilities and equity</b>		<b>148,216</b>	<b>133,783</b>

The notes on pages 17 to 29 are an integral part of these consolidated financial statements.

## Consolidated Statement of Income

### Unaudited

For the three and six month periods ended June 30		Three month		Six month	
<i>In thousands of US dollars</i>	<i>Note</i>	2011	2010	2011	2010
Revenue		77,535	60,983	147,757	112,085
Cost of sales		(67,552)	(52,503)	(126,811)	(95,692)
<b>Gross profit</b>		<b>9,983</b>	<b>8,480</b>	<b>20,946</b>	<b>16,393</b>
General and administrative expenses		(2,541)	(1,879)	(5,156)	(3,816)
Selling and marketing expenses		(1,009)	(1,146)	(1,972)	(1,946)
Research and development expenses	4	114	(210)	(269)	(321)
Other income (expenses)		239	(758)	70	(535)
<b>Results from operating activities</b>		<b>6,786</b>	<b>4,487</b>	<b>13,619</b>	<b>9,775</b>
Finance costs		(377)	(408)	(730)	(794)
<b>Net finance costs</b>		<b>(377)</b>	<b>(408)</b>	<b>(730)</b>	<b>(794)</b>
<b>Profit before income tax</b>		<b>6,409</b>	<b>4,079</b>	<b>12,889</b>	<b>8,981</b>
Income tax expense	5	(1,882)	(1,358)	(4,065)	(2,786)
<b>Profit for the period</b>		<b>4,527</b>	<b>2,721</b>	<b>8,824</b>	<b>6,195</b>
Earnings per share to the equity holders:					
Basic		0.19	0.11	0.37	0.26
Diluted		0.19	0.11	0.37	0.26

## Consolidated Statement of Comprehensive Income

### Unaudited

For the three and six month period ended June 30		2011		2010	
<i>In thousands of US dollars</i>					
<b>Profit for the period</b>		<b>4,527</b>	<b>2,721</b>	<b>8,824</b>	<b>6,195</b>
<b>Other comprehensive income</b>					
Defined benefit plan actuarial gains (losses)		-	(40)	-	(80)
<b>Other comprehensive income for the period, net of income tax</b>		<b>-</b>	<b>(40)</b>	<b>-</b>	<b>(80)</b>
<b>Total comprehensive income for the period</b>		<b>4,527</b>	<b>2,681</b>	<b>8,824</b>	<b>6,115</b>

The notes on pages 17 to 29 are an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity

### Unaudited

<i>In thousands of US dollars</i>	Attributable to equity holders of the Company			
	Share Capital	Contributed Surplus	Retained earnings	Total
Balance at January 1, 2010	38,975	1,507	20,311	60,793
<b>Total comprehensive income for the period</b>				
Profit	-	-	6,195	6,195
<b>Other comprehensive income</b>				
Defined benefit plan actuarial gains and losses, net of tax	-	-	(80)	(80)
Total other comprehensive income	-	-	(80)	(80)
Total comprehensive income for the period	-	-	6,115	6,115
<b>Contributions by and distributions to owners</b>				
Stock option expensed	-	288	-	288
Dividends to equity holders	-	-	(1,137)	(1,137)
Stock options exercised	153	(153)	-	-
Repurchase of common shares	(13)	(25)	-	(38)
Total contributions by and distributions to owners	140	110	(1,137)	(887)
Balance at June 30, 2010	39,115	1,617	25,289	66,021
Balance at January 1, 2010	38,975	1,507	20,311	60,793
<b>Total comprehensive income for the period</b>				
Profit	-	-	14,511	14,511
<b>Other comprehensive income</b>				
Defined benefit plan actuarial gains and losses, net of tax	-	-	(375)	(375)
Total other comprehensive income	-	-	(375)	(375)
Total comprehensive income for the period	-	-	14,136	14,136
<b>Contributions by and distributions to owners</b>				
Stock option expensed	-	790	-	790
Dividends to equity holders	-	-	(2,514)	(2,514)
Normal Course Issuer Bid	(515)	(505)	(909)	(1,929)
Stock options exercised	113	(113)	-	-
Total contributions by and distributions to owners	(402)	172	(3,423)	(3,653)
Balance at December 31, 2010	38,573	1,679	31,024	71,276
Balance at January 1, 2011	38,573	1,679	31,024	71,276
<b>Total comprehensive income for the period</b>				
Profit	-	-	8,824	8,824
<b>Other comprehensive income</b>				
Total other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	8,824	8,824
<b>Contributions by and distributions to owners</b>				
Stock option expense	-	278	-	278
Stock options exercised	159	(159)	-	-
Dividends to equity holders	-	-	(1,636)	(1,636)
Total contributions by and distributions to owners	159	119	(1,636)	(1,358)
Balance at June 30, 2011	38,732	1,798	38,212	78,742

The notes on pages 17 to 29 are an integral part of these consolidated financial statements.

## Consolidated Statement of Cash Flows

### Unaudited

For the six-month period ended June 30

In thousands of US dollars

	Note	2011	2010
<b>Cash flows from operating activities</b>			
Profit for the period		8,824	6,195
<b>Adjustments for:</b>			
Depreciation	8	2,234	2,039
Amortization of intangible assets	9	137	138
Net finance costs		730	794
Unrealized foreign exchange gains/losses		378	626
Equity-settled share-based payment transactions	14	278	288
Income tax expense	5	4,065	2,786
		<b>16,646</b>	<b>12,866</b>
Change in inventories		(10,825)	2,404
Change in trade and other receivables		(18,786)	(9,562)
Change in prepayments		1,298	300
Change in trade and other payables		7,053	289
Change in provisions and employee benefits		67	144
Cash generated from (used in) operating activities		<b>(4,547)</b>	<b>6,441</b>
Interest paid		(656)	(639)
Income tax paid		(3,063)	(4,275)
<b>Net cash provided by (used in) from operating activities</b>		<b>(8,266)</b>	<b>1,527</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	8	(1,528)	(884)
Acquisition of intangible assets	9	(260)	(92)
<b>Net cash used in financing activities</b>		<b>(1,788)</b>	<b>(976)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(626)	(644)
Dividends paid	11	(1,447)	(1,360)
NCIB		-	(38)
<b>Net cash used in financing activities</b>		<b>(2,073)</b>	<b>(2,042)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(12,127)</b>	<b>(1,491)</b>
Cash and cash equivalents at January 1		13,300	2,690
Effect of exchange rate fluctuations on cash held		158	(93)
<b>Cash and cash equivalents at June 30</b>		<b>1,331</b>	<b>1,106</b>

The notes on pages 17 to 29 are an integral part of these consolidated financial statements.

## Notes to Consolidated Financial Statements

### Unaudited

#### NOTE 1 REPORTING ENTITY

AirBoss of America Corp. (the "Company") is a public company listed on the Toronto Stock Exchange, incorporated and domiciled in Canada. The address of the Company's registered office is 16441 Yonge Street, Newmarket, Ontario, Canada. The consolidated financial statements of the Company as at and for the three-month and six-month periods ended June 30, 2011 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in jointly controlled entities. The Group has operations in Canada and the US and primarily is involved in the manufacture of high quality rubber-based products to resource, military and industrial markets (see note 16).

#### NOTE 2 BASIS OF PREPARATION

##### (a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with *IAS 34 Interim Financial reporting*. These are the Company's second International Financial Reporting Standards ("IFRS") condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and "First Time Adoption of IFRS" ("IFRS 1") has been applied. The Company adopted IFRS with a transition date of January 1, 2010 ("transition date").

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 20. This note includes the reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under Canadian GAAP (previous GAAP) to those reported for those periods and at the date of transition.

These consolidated interim financial statements should be read in conjunction with the March 31, 2011 unaudited consolidated financial statements prepared in accordance with IAS 34 Interim Financial reporting and the company's first interim IFRS consolidated financial statements.

The consolidated financial statements were authorized for issue by the Board of Directors on August 10, 2011.

#### NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out in the March 31, 2011 unaudited consolidated financial statements have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

The accounting policies have been applied consistently by Group entities.

#### New standards and interpretations not yet adopted

##### Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets

In October 2010 the IASB issued amendments to IFRS 7 Disclosures – Transfers of Financial Assets, which is effective for annual periods beginning on or after January 1, 2012. Disclosure requirements for transactions involving transfers of financial assets have increased to provide greater transparency around risk disclosure when an asset is transferred but the transferor retains some level of continuing exposure in the asset. The Company does not anticipate an impact.

##### IFRS 9 Financial Instruments

IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 is effective for fiscal years beginning on or after January 1, 2013 and introduces new requirements for the classification and measurement, and de-recognition of financial assets and financial liabilities. IFRS 9 requires all recognized financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. For financial liabilities designated as "fair value through profit and loss", fair value changes attributable to changes in credit risk is now recognized in other comprehensive income. At this time, management cannot provide a reasonable estimate of the effect until a detailed review has been completed.

##### IAS 12 Income taxes: Amendments regarding deferred taxes – Recovery of underlying assets

Effective for fiscal years on or after January 1, 2012, the measurement of deferred tax liabilities or deferred tax assets arising from a non-depreciable asset using the revaluation model in IAS 16 Property Plant and Equipment, and investment property using the fair value model in IAS 40 Investment Property shall reflect the tax consequences of recovering the amount through a sale regardless of the basis of measuring the carrying amount of that asset. The Company does not anticipate an impact.

##### IFRS 10 Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 10 has not yet been determined.

## Notes to CFS (cont'd)

### IFRS 11 Joint Arrangements

In May 2011, the IASB issued IFRS 11 Joint Arrangements, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 11 replaces the guidance in IAS 31 Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 11 has not yet been determined.

### IFRS 13 Fair Value Measurement

In May 2011, the IASB published IFRS 13 Fair Value Measurement, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.

The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

### Amendments to IAS 1 Presentation of Financial Statements

In June 2011, the IASB published amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income ("OCI"), which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. Early adoption is permitted. The amendments require that an entity present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently an entity that presents items of OCI before related tax effects will also have to allocate that aggregated tax amount between these categories. The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

### Amendments to IAS 19 Employee Benefits

In June 2011, the IASB published an amended version of IAS 19 Employee Benefits. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted. The amendment is generally applied retrospectively with certain exceptions.

The amendments will require the following:

- Recognition of actuarial gains and losses immediately in other comprehensive income
- Full recognition of past service costs immediately in profit or loss
- Recognition of expected return on plan assets in profit or loss to be calculated based on the rate used to discount the defined benefit obligation

Additional disclosures that explain the characteristics of the entity's defined benefit plans and risks associated with the plans, as well as disclosures that describe how defined benefit plans may affect the amount, timing and uncertainty of future cash flows, and details of any asset-liability match strategies used to manage risks.

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

## Notes to CFS (cont'd)

**NOTE 4 RESEARCH AND DEVELOPMENT ("R&D") EXPENSES**

On filing its 2010 Canadian tax returns, the Company recognized \$526 thousand of R&D tax credits (2010 - \$104 thousand); R&D costs were adjusted accordingly.

**NOTE 5 INCOME TAX EXPENSE**

<i>In thousands of US dollars</i>	Three months ended		Six months ended	
	2011	2010	2011	2010
<b>Current tax expense</b>				
Current period	1,341	1,426	2,534	3,283
Adjustment for prior periods	85	-	85	(62)
	1,426	1,426	2,619	3,221
<b>Deferred tax expense</b>				
Origination and reversal of temporary differences	573	(68)	1,548	(435)
Adjustment for prior periods	(117)	-	(102)	-
	456	(68)	1,446	(435)
Total income tax expense	1,882	1,358	4,065	2,786

**NOTE 6 TRADE AND OTHER RECEIVABLES**

<i>In thousands of US dollars</i>	June 30, 2011	December 31, 2010
Trade receivables	47,413	28,078
Less: allowance for doubtful accounts	(90)	(50)
	47,323	28,028
Loan to officer	155	151
Other receivables	1,648	2,197
	49,126	30,376

**Impairment losses**

The aging of trade and other receivables at the reporting date was:

<i>In thousands of US dollars</i>	June 30, 2011		December 31, 2010	
	Gross	Impairment	Gross	Impairment
Not past due	30,514	-	22,248	
Past due 0-30 days	14,443	-	5,191	
Past due 31-120 days	2,456	(90)	639	(50)
	47,413	(90)	28,078	(50)

The continuity of the allowance for doubtful accounts was:

<i>In thousands of US dollars</i>	2011	2010
Balance at January 1	50	652
Impairment loss recognized	54	61
Revise estimate/write-off	(15)	(591)
Effect of movements in exchange rates	1	1
Balance at June 30	90	123

## Notes to CFS (cont'd)

**NOTE 7 INVENTORIES***In thousands of US dollars*

	June 30, 2011	December 31, 2010
Raw materials and consumables	33,121	24,627
Work in progress	4,057	2,556
Finished goods	6,147	5,520
Inventory in transit	1,780	1,233
Other inventory	1,067	1,081
Provisions	(1,028)	(698)
	<b>45,144</b>	<b>34,319</b>

**NOTE 8 PROPERTY, PLANT AND EQUIPMENT***In thousands of US dollars*

	Land and buildings	Plant and equipment	Furniture and equipment	Under construction	Total
<b>Cost or deemed cost</b>					
Balance at January 1, 2010	10,962	31,009	442	210	42,623
Additions	284	471	70	59	884
Balance at June 30, 2010	11,246	31,480	512	269	43,507
Balance at January 1, 2011	11,492	33,628	638	994	46,752
Additions	340	542	223	423	1,528
Transfers	-	768	-	(768)	-
Balance at June 30, 2011	11,832	34,938	861	649	48,280
<b>Accumulated depreciation</b>					
Balance at January 1, 2010	-	-	-	-	-
Depreciation for the period	323	1,628	88	-	2,039
Balance at June 30, 2010	323	1,628	88	-	2,039
Balance at January 1, 2011	661	3,437	187	-	4,285
Depreciation for the period	342	1,821	71	-	2,234
Balance at June 30, 2011	1,003	5,258	258	-	6,519
<b>Carrying amounts</b>					
<i>In thousands of US dollars</i>					
At January 1, 2010	10,962	31,009	442	210	42,623
At June 30, 2010	10,923	29,852	424	269	41,468
At January 1, 2011	10,831	30,191	451	994	42,467
At June 30, 2011	10,829	29,680	603	649	41,761

Government assistance grants were \$250,000 in 2011 (nil in 2010); capital assets were adjusted accordingly.

## Notes to CFS (cont'd)

## NOTE 9 INTANGIBLE ASSETS

<i>In thousands of US dollars</i>	Goodwill	Product development	Software	Total
<b>Cost</b>				
Balance at January 1, 2010	6,833	91	870	7,794
Acquisitions	-	-	92	92
Balance at June 30, 2010	6,833	91	962	7,886
Balance at January 1, 2011	6,833	91	1,181	8,105
Acquisitions	-	-	260	260
Balance at June 30, 2011	6,833	91	1,441	8,365
<b>Amortization and impairment losses</b>				
Balance at January 1, 2010	-	-	-	-
Amortization for the period	-	-	138	138
Balance at June 30, 2010	-	-	138	138
Balance at January 1, 2011	-	-	280	280
Amortization for the period	-	-	137	137
Balance at June 30, 2011	-	-	417	417
<b>Carrying amounts</b>				
At January 1, 2010	6,833	91	870	7,794
At June 30, 2010	6,833	91	824	7,748
At January 1, 2011	6,833	91	901	7,825
At June 30, 2011	6,833	91	1,024	7,948

## NOTE 10 OTHER INVESTMENTS

<i>In thousands of US dollars</i>	June 30, 2011	December 31, 2010
<b>Non-current investments</b>		
Other investments	143	139
	143	139
<b>Current investments</b>		
Financial assets designated at fair value through profit or loss	375	-
	375	-
	518	139

The financial assets designated at fair value through profit or loss are forward contracts.

**Derivatives not meeting hedge accounting criteria:**

At June 30, 2011, the Company had contracts to sell US \$21.75 million between July and December, 2011 for CAD \$21.3 million. The fair value of these contracts, representing a net gain of \$0.4 million, is recorded on the statement of financial position included in other investments, including derivatives and foreign exchange gains and losses and are recorded on the statement of income as other income (expense).

## Notes to CFS (cont'd)

**NOTE 11 CAPITAL AND OTHER COMPONENTS OF EQUITY****Share capital and contributed surplus**

<i>In thousands of shares</i>	<i>Common shares</i>	
	2011	2010
January 1	23,613	23,899
Exercise of share options	44	43
Repurchase of common shares	-	(8)
June 30	23,657	23,934

**Issuance of common shares**

During 2011, 149,000 (186,000 in 2010) options were exercised on a cash-less basis for 43,804 (43,352 in 2010) shares.

**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.

**Dividends**

The following dividends were declared by the Group:

**For the six-month period ended June 30**

<i>In thousands of US dollars</i>	2011	2010
6.75 cents per qualifying common share (2010: 5 cents)	1,636	1,137

**NOTE 12 EARNINGS PER SHARE****Basic earnings per share**

The calculation of basic earnings per share six months ending June 30, 2011 was based on the profit attributable to common shareholders of \$8,824 thousand (2010: \$6,195 thousand), and a weighted average number of common shares outstanding of 23,621 thousand (2010: 23,904 thousand). The calculation of basic earnings per share for the three-month period ending June 30, 2011 was based on the profit attributable to common shareholders of \$4,527 thousand (2010: \$2,721 thousand), and a weighted average number of common shares outstanding of 23,628 thousand (2010: 23,905 thousand).

**Diluted earnings per share**

The calculation of diluted earnings per share six months ending June 30, 2011 was based on profit attributable to common shareholders of \$8,824 thousand (2010: \$6,195 thousand), and a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 24,134 thousand (2010: 24,125 thousand). The calculation of diluted earnings per share for the three-month period ending June 30, 2011 was based on profit attributable to common shareholders of \$4,527 thousand (2010: \$2,721 thousand), and a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 24,122 thousand (2010: 24,136 thousand), calculated as follows:

**Weighted average number of common shares (diluted)**

<i>In thousands of shares</i>	<i>Common shares</i>			
	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Weighted average number of common shares (basic)	23,628	23,905	23,621	23,904
Effect of share options on issue	494	231	513	221
Weighted average number of common shares (diluted) at June 30	24,122	24,136	24,134	24,125

At June 30, 2011, 100 thousand options (2010: nil) 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 purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

## Notes to CFS (cont'd)

**NOTE 13 EMPLOYEE BENEFITS**

	Pension Plan	Life Insurance Plan	Pension Plan	Life Insurance Plan
<i>In thousands of US dollars</i>	2011	2011	2010	2010
<b>Expense recognized in profit or loss</b>				
Current service costs	-	(20)	-	(13)
Interest on obligation	72	16	68	12
Expense	72	(4)	68	(1)

**NOTE 14 SHARE-BASED PAYMENT****Share options outstanding as at June 30**

<i>In thousands</i>	2011	2010
Share options granted and outstanding	1,934	1,867

**Inputs for measurement of grant date fair values**

The grant date fair value of all share-based payment plans was measured based on the Black-Scholes formula. 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:

	Share option program	
	Key management personnel	Key management personnel
	2011	2010
<b>Fair value of share options and assumptions</b>		
Fair value at grant date	\$2.97	\$1.99 to \$2.10
Share price at grant date	\$7.19	\$5 to \$5.27
Exercise price	\$7.19	\$5 to \$5.27
Expected volatility (weighted average volatility)	48.8%	48.8 to 49.2%
Option life (expected weighted average life)	5 years	5 years
Expected dividends	1.11%	1.52 to 1.6%
Risk-free interest rate (based on government bonds)	2.62%	2.35 to 2.8%

**Employee expenses**

<i>In thousands of dollars</i>	2011	2010
Total expense recognized as employee costs	278	288

**NOTE 15 LOANS AND BORROWINGS**

The Company is not in default nor has it breached any terms of its loan agreement.

## Notes to CFS (cont'd)

**NOTE 16 PROVISIONS**

<i>In thousands of US dollars</i>	Site restoration	Legal	Total
Balance at January 1, 2010	95	476	571
Provisions used during the period	-	(271)	(271)
Foreign exchange	3	-	3
Balance at June 30, 2010	98	205	303
Balance at January 1, 2011	102	212	314
Provisions used during the period	-	(73)	(73)
Provisions reversed during the period	-	(100)	(100)
Foreign exchange	2	6	8
Balance at June 30, 2011	104	45	149
Non-current	104	45	149
Current	-	-	-
	104	45	149

**Site restoration**

A provision of CAD\$100 thousand was made in respect of the Group's obligation to rectify environmental damage in Québec. Most of the required work was completed during 2007 at a cost of \$1,800 thousand.

In accordance with Québec law, the remaining trace contamination relating to the Group's subsidiary in Québec must be restored to its original condition only if the premises are vacated or the property is sold.

**Legal**

In 2004, the Company commenced an Action in the Superior Court of Québec claiming funds due pursuant to the 1999 Agreement of Purchase and Sale whereby AirBoss acquired the assets of Acton International Inc. Part of the claim was settled pursuant to the filing in May 2007 of a Declaration of Settlement with one of the defendants for substantially the full amount with their 32% share of the Company's claims. The remaining claims amount to \$2.4 million plus accrued interest of which \$1.2 million relates to an environmental claim for clean-up work completed by the Company and \$1.2 million relates to a reduction in purchase price due to the sales of military footwear not reaching specified targets by 2001.

The remaining defendants have filed a counterclaim against the Company in the amount of \$4.8 million plus interest. The trial in this matter took place before the Superior Court of Montreal in May and June 2010. The Company has recorded their claims as recoverable from the Defendants, in the case of the environmental claim when the clean-up costs were incurred and in the case of the purchase price reduction when the conditions were met giving rise to the claim in 2001. The Company has accrued and expensed \$0.5 million at December 31, 2009 and an additional \$0.6 million at December 31, 2010 representing the estimated costs of the trial.

In March of 2011, the Company was informed that the Superior Court rendered a judgement in its favor allowing the parties to offset their respective claims. The Company has been informed that an appeal was filed relating to the judge's decision to award the Company 100% of its claim for environmental cost reimbursement. After paying for the costs of the trial to date, the Group maintains a provision of \$45 thousand.

## Notes to CFS (cont'd)

## NOTE 17 OPERATING SEGMENTS

## Information about reportable segments

Three months ended June 30 <i>In thousands of dollars</i>	Rubber Compounding		Engineered Products		Corporate and Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
External revenues	57,512	42,091	20,023	18,892	-	-	77,535	60,983
Inter-segment revenue	2,382	2,600	1,709	1,820	-	-	4,091	4,420
Reportable segment profit before income tax	2,739	1,908	4,314	2,692	(644)	(521)	6,409	4,079
Reportable segment assets	98,805	85,395	45,773	36,140	3,638	12,248	148,216	133,783
Capital expenditure	180	223	660	272	1	-	841	495

Six months ended June 30 <i>In thousands of dollars</i>	Rubber Compounding		Engineered Products		Corporate and Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
External revenues	109,336	75,297	38,421	36,788	-	-	147,757	112,085
Inter-segment revenue	3,690	5,304	3,360	4,434	-	-	7,050	9,738
Reportable segment profit before income tax	6,612	2,575	8,528	7,521	(2,251)	(1,115)	12,889	8,981
Reportable segment assets	98,805	85,395	45,773	36,140	3,638	12,248	148,216	133,783
Capital expenditure	259	375	1,266	509	3	-	1,528	884

## Geographical segments

The Rubber Compounding, Engineered Products segments operate 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 revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

## Geographical information

<i>In thousands of dollars</i>	Three months ended June 30, 2011	Six months ended June 30, 2011	June 2011
	Revenues	Revenues	Non-current assets
Canada	21,692	40,600	43,115
United States	52,468	101,518	8,306
Other countries	3,375	5,639	-
	77,535	147,757	51,421

<i>In thousands of dollars</i>	Three months ended June 30, 2010	Six months ended June 30, 2010	December 2010
	Revenues	Revenues	Non-current assets
Canada	16,808	29,916	43,857
United States	42,543	79,271	9,860
Other countries	1,632	2,898	-
	60,983	112,085	53,717

## Major customers

Revenues from one customer represents approximately 24.0% (2010: 19.5%) of the Group's total revenues. Five customers represented 55.9% (2010: 51.9%) of the Company's total revenues.

## Notes to CFS (cont'd)

**NOTE 18 RELATED PARTIES**

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

<i>In thousands of dollars</i>		Note	Transaction value period ended June 30		Balance outstanding as at		
			2011	2010	June 30	December 31	
Director	Transaction		2011	2010	2011	2010	2010
P G Schoch	Lease	(i)	54	43	-	-	-
	Dues	(ii)	11	9	-	-	-

(i) Included in the operating lease commitments is a rental agreement for Corporate office space between the Group and a company controlled by the Chairman of the Group. The lease expires August, 2012. The lease provides for the purchase of the building should certain events occur beyond the control of the Chairman.

(ii) The Group paid annual dues relating to a facility in South Carolina to a Company in which the Chairman of the Group is an officer.

**NOTE 19 EXPLANATION OF TRANSITION TO IFRS**

As stated in note 2, these consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting.

The accounting policies set out in the March 31, 2011 unaudited consolidated financial statements, note 3 have been applied in preparing the financial statements for the quarter ended June 30, 2011, the comparative information presented in these financial statements for the quarter ended June 30, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Group's date of transition).

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

**NOTE 20 EXPLANATION OF TRANSITION TO IFRS****Reconciliation of equity**

<i>In thousands of dollars</i>	Note	Previous <sup>1</sup>	Effect of	IFRSs
		Canadian GAAP \$CAD	transition to IFRSs	
		June 30, 2010		
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		1,147	(41)	1,106
Trade and other receivables		37,559	(1,303)	36,256
Prepaid expenses		438	(15)	423
Current tax assets		53	(7)	46
Inventories		30,483	(1,370)	29,113
Other investments, including derivatives	f	-	527	527
<b>Total current assets</b>		69,680	(2,209)	67,471
Trade and other receivables	f	-	145	145
Property, plant and equipment	b	52,004	(10,536)	41,468
Intangible assets	f	7,182	566	7,748
Other investments, including derivatives		1,861	(1,729)	132
Deferred tax assets	b,c,d	6,083	(157)	5,926
<b>Total non-current assets</b>		67,130	(11,711)	55,419
<b>Total assets</b>		136,810	(13,920)	122,890

<sup>1</sup>Certain comparative figures have been amended to conform with the December 31, 2010 and current year's presentation.

## Notes to CFS (cont'd)

## Reconciliation of equity (cont'd)

<i>In thousands of dollars</i>	Note	Previous Canadian GAAP \$CAD	Effect of transition to IFRSs	IFRSs \$USD
		June 30, 2010		
<b>Liabilities</b>				
<b>Current liabilities</b>				
Loans and borrowings		1,392	(49)	1,343
Trade and other payables, including derivatives	<i>f</i>	24,761	(456)	24,305
Dividend payables	<i>f</i>	718	(718)	-
<b>Total current liabilities</b>		26,871	(1,223)	25,648
Loans and borrowings		23,233	(805)	22,428
Employee benefits	<i>c</i>	2,627	44	2,671
Provisions	<i>f</i>	-	302	302
Deferred tax liabilities	<i>d</i>	8,940	(3,120)	5,820
<b>Total non-current liabilities</b>		34,800	(3,579)	31,221
<b>Total liabilities</b>		61,671	(4,802)	56,869
<b>Equity</b>				
Share capital		41,110	(1,995)	39,115
Contributed surplus		1,699	(82)	1,617
Retained earnings		32,330	(7,041)	25,289
<b>Total equity</b>		75,139	(9,118)	66,021
<b>Total liabilities and equity</b>		136,810	(13,920)	122,890

## Reconciliation of comprehensive income

<i>In thousands of dollars</i>	Note	Previous Canadian GAAP \$CAD	Effect of transition to IFRSs	IFRSs \$USD	Previous Canadian GAAP \$CAD	Effect of transition to IFRSs	IFRSs \$USD
		Three months June 30, 2010			Six months June 30, 2010		
<b>Continuing operations</b>							
Revenue		62,014	(1,031)	60,983	115,899	(3,814)	112,085
Cost of sales		(53,298)	(795)	(52,503)	(99,265)	(3,573)	(95,692)
<b>Gross profit</b>		8,716	(236)	8,480	16,634	(241)	16,393
General and administrative expenses	<i>f</i>	(1,973)	94	(1,879)	(4,016)	200	(3,816)
Selling and marketing expenses		(1,185)	39	(1,146)	(2,041)	95	(1,946)
Research and development expenses		(199)	(11)	(210)	(335)	14	(321)
Other income		(710)	(48)	(758)	(446)	(89)	(535)
<b>Results from operating activities</b>		4,649	(162)	4,487	9,796	(21)	9,775
<b>Net finance costs</b>	<i>f</i>	(380)	(28)	(408)	(750)	(44)	(794)
<b>Profit before income tax</b>		4,269	(190)	4,079	9,046	(65)	8,981
Income tax expense	<i>d</i>	(1,222)	(136)	(1,358)	(2,967)	181	(2,786)
<b>Profit for the period</b>		3,047	(326)	2,721	6,079	116	6,195
<b>Other comprehensive income</b>							
Defined benefit plan actuarial gains (losses)	<i>c</i>	-	(40)	(40)	-	(80)	(80)
<b>Other comprehensive income for the period, net of income tax</b>		-	(40)	(40)	-	(80)	(80)
<b>Total comprehensive income for the period</b>		3,047	(366)	2,681	6,079	36	6,115

## Notes to CFS (cont'd)

**(a) Functional currency**

Primary and secondary indicators under IFRS suggest the Company's functional currency is US dollars. Generally, the currency selling prices are determined, denominated, and settled in USD. US competitive forces and regulations determine pricing as most customers and competitors operate in the US dollar. Foreign sourced commodities traded in USD accounts for most of the costs incurred, despite much of the labour and other expenses being denominated in CAD. The Company is able to raise financing in USD. Strategically, further expansion will likely be in the US. Previously under Canadian GAAP, the Company's functional and reporting currency was the Canadian dollar.

The Company reports its financial statements in US dollars in order to reduce potential distortions in the results from translating its US functional statements back into Canadian funds. There are three important impacts to highlight. Firstly, most numbers reported in 2010 have been reduced as a result of the relatively weaker Canadian dollar. Secondly, the effect of currency risk mitigation efforts that did not meet the criteria for hedge accounting resulted in a re-statement of gross margin and exchange gains and losses. Thirdly, going forward the Company will focus its efforts to mitigate currency risks related to Canadian dollar transactions such as Canadian salaries and wages, overheads, interest, taxes and dividends.

**(b) Deemed cost**

The Group has elected to restate property, plant and equipment, where practical, to fair value as deemed cost under IFRS at the transition date. Appraisals were obtained to assess the fair value of land, building, and manufacturing equipment to be used as deemed cost at the date of transition to IFRS. Most of the manufacturing equipment was acquired in US dollars at a time when the Canadian dollar was substantially weaker than at January 1, 2010. In addition, weakened economic conditions impacted the market value of property and equipment. These factors contributed to a revaluation in deemed cost on transition to IFRS totaling \$7.5 million; however no impairment charge was required under Canadian GAAP as there was no trigger for impairment testing. In addition, future income tax liabilities required an adjustment to reflect the re-measurement of capital assets.

<i>In thousands of US dollars</i>	Three months ended	Six months ended	
For the period ended:	June 30, 2010	June 30, 2010	December 31, 2010
<b>Consolidated statement of comprehensive income</b>			
Decrease in cost of sales	(47)	(257)	(500)
<b>Adjustment before income tax</b>	<b>(47)</b>	<b>(257)</b>	<b>(500)</b>
	June 30, 2010	December 31, 2010	
<b>Consolidated statement of financial position</b>			
Increase (Decrease) in property, plant and equipment		(7,168)	(6,925)
Decrease in intangible assets		(72)	(72)
Related tax effect		2,505	2,438
<b>Adjustment</b>		<b>(4,735)</b>	<b>(4,559)</b>

**(c) Employee benefits**

Under IFRSs the Group's accounting policy is to recognize all actuarial gains and losses immediately in other comprehensive income. At the date of transition, all previously unrecognized cumulative actuarial gains and losses were recognized in retained earnings. The unrecognized actuarial gains and losses exceeding the corridor that were recognized in profit or loss for the year ending December 31, 2010 under previous Canadian GAAP were reversed, (\$11 thousand) and all actuarial gains and losses arising in 2010 (\$410 thousand net of tax) were recognized in other comprehensive income.

As well, the Group elected to treat the financing component as an interest cost.

The impact arising from the change is summarized as follows:

<i>In thousands of US dollars</i>	Three months ended	Six months ended	
For the period ended:	June 30, 2010	June 30, 2010	December 31, 2010
<b>Consolidated statement of comprehensive income</b>			
Decrease in cost of sales		-	(11)
Decrease in general and administrative expenses	(35)	(68)	(141)
Increase in financing cost	35	68	141
<b>Adjustment before income tax</b>	<b>-</b>	<b>-</b>	<b>(11)</b>
		Six months ended	
<i>In thousands of US dollars</i>		June 30, 2010	December 31, 2010
<b>Consolidated statement of financial position</b>			
Increase in employee benefit liability		(135)	(581)
Related tax effect		17	171
<b>Decrease in retained earnings</b>		<b>(118)</b>	<b>(410)</b>

**(d) Income taxes**

IAS 12 requires that future income taxes be recognized on foreign exchange differences where the currency of the tax basis on non-monetary assets and liabilities differs from the functional currency.

The above changes decreased (increased) the deferred tax liability as follows:

<i>In thousands of US dollars</i>	<i>Note</i>	Six months ended	
		June 30, 2010	December 31, 2010
Foreign exchange	<i>d</i>	47	309
Deemed cost adjustment of property, plant and equipment	<i>b</i>	2,578	2,578
Depreciation		(73)	(140)
Employee benefits	<i>c</i>	17	171
<b>Decrease in net deferred tax liability</b>		<b>2,569</b>	<b>2,918</b>

The adjustment in note (a) relating to the change in functional currency, the adjustment in note (b) relating to the restating property plant and equipment through the deemed cost election, and the recognition of the actuarial loss in other comprehensive income in note (c) and the future income taxes on foreign exchange differences resulted in a net decrease in the deferred tax liability of \$2,596 thousand with the related tax charged to retained earnings for the January 1, 2010 and \$2,918 thousand for the year ended December 31, 2010.

**(e)** The above changes decreased (increased) retained earnings (each net of related tax) as follows:

<i>In thousands of US dollars</i>	<i>Note</i>	Six months ended	
		June 30, 2010	December 31, 2010
Impairment of property, plant and equipment	<i>b</i>	4,735	4,559
Employee benefits	<i>c</i>	118	410
Income taxes	<i>d</i>	47	309
<b>Decrease in retained earnings</b>		<b>4,900</b>	<b>5,278</b>

**(f)** The balances on the Consolidated statement of financial position were reclassified as follows:

<i>In thousands of US dollars</i>	Three months ended June 30, 2010	Six months ended June 30, 2010	December 31, 2010
<b>Software:</b>			
Other assets		(824)	(901)
Intangible assets		824	901
<b>Development:</b>			
Other assets		(91)	(91)
Intangible assets		91	91
<b>Employee loan:</b>			
Other assets		(145)	(151)
Trade and other receivables		145	151
<b>Dividend payable:</b>			
Dividend payable		(718)	(712)
Accounts payable		718	712
<b>Legal and asset retirement obligation provisions:</b>			
Accounts payable		(303)	(314)
Provisions		303	314
<b>Future income tax:</b>			
Future income tax asset		8	24
Future income tax liability		(8)	(24)
<b>Pension expense:</b>			
General and administrative expenses	(35)	(68)	(141)
Finance cost	35	68	141

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