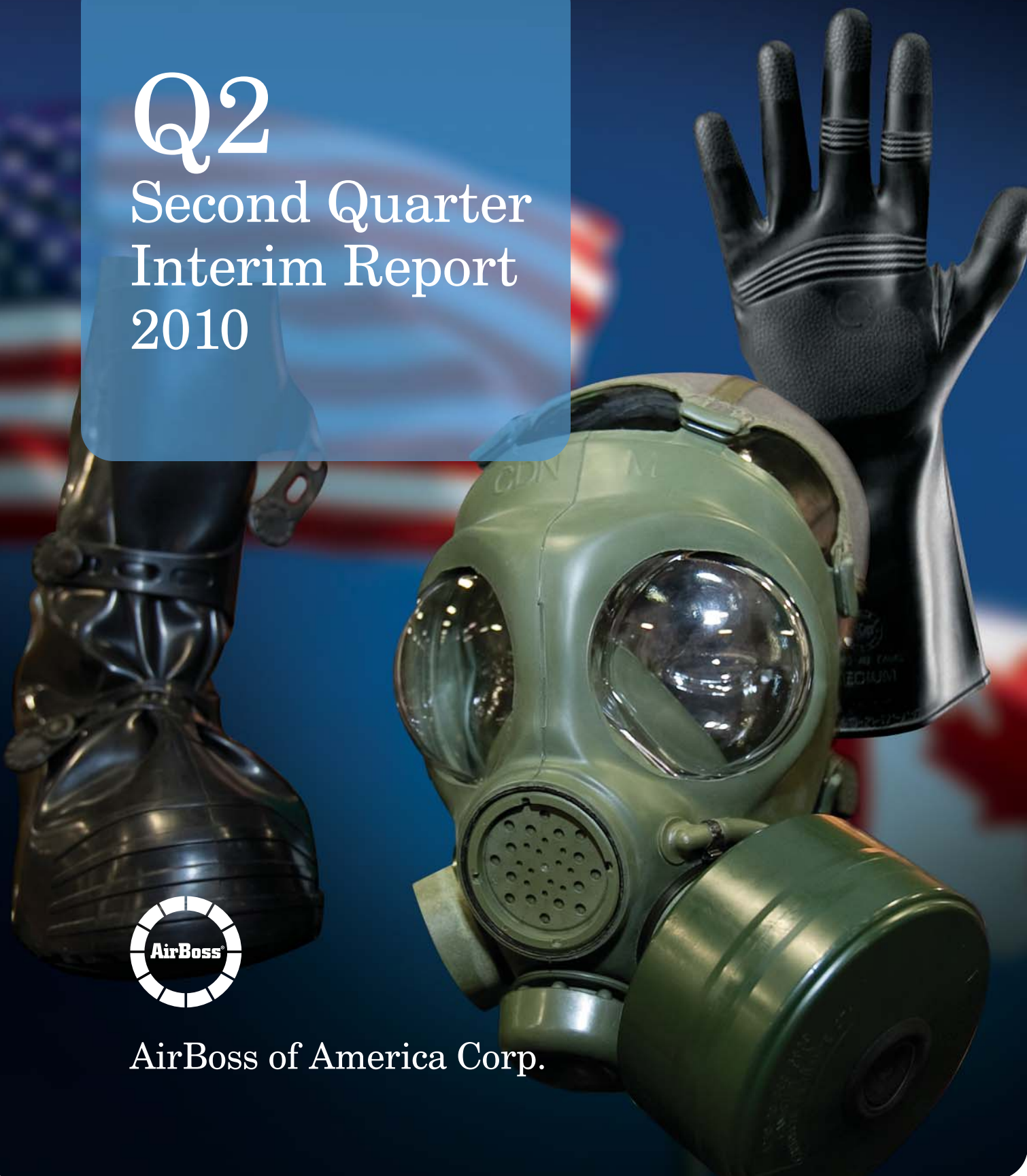


Q2

Second Quarter
Interim Report
2010



AirBoss of America Corp.

AirBoss of America Operations

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Financial Condition and Results of Operations
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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.

Military and Industrial Products

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

To Our Shareholders

AirBoss-Defense

Sales increased by \$1.8 million to \$18.6 million or by 10.7% in the second quarter of 2010 compared to the same quarter of the previous year. Year-to-date sales have increased by \$2.2 million. Most of this increase can be attributed to increased sales of CBRN protective gloves manufactured at the facility in Vermont which began manufacturing in January, 2010.

This facility is now operating on a three shift basis and is achieving efficiencies comparable to the established facility in Kitchener, Ontario. Vermont represents a key initiative in the introduction of the next generation CBRN over-boots which provide increased protection at less cost. It also provides an increased ratio of US to Canadian input costs offsetting the effect of a rising Canadian dollar.

Sales of defense products are expected to be slightly higher in the last six months due to sales of gas masks, the successful bid for tank track repair materials and the continued demand for CBRN protective wear.

The Company is actively in the process of identifying and pursuing opportunities to increase the soldier protection product line through acquisition and increased product development initiatives.

AirBoss Rubber Compounding

Sales for the Rubber Compounding Division for the six-month period increased by 18% compared to the previous year and by 24% compared to the first quarter of 2010. Volumes also increased by 24% compared to 2009. Average selling prices per pound to US based customers declined after translation due to the strengthening Canadian dollar. The business was able to record an improved operating profit for the quarter as a result of the higher level of activity which was experienced in virtually all major sectors. Further increases in volumes are forecast for the second half of 2010 as two significant new customers have recently qualified our Scotland Neck facility, with one already purchasing and the other expected to commence midway through the third quarter.

Raw material prices have generally risen over the period with increases in natural rubber again being the most significant. We have been successful in maintaining joint raw material purchasing plans with key customers which allow some extended price protection while maintaining responsible working capital levels. Much of these increases have been driven by natural rubber.

While we do not anticipate raw material price pressure to continue, the market will remain very competitive due to excess capacity.

Q2 2010 Highlights:

- 2nd Quarter sales increase by 28% year-over-year
- 2nd Quarter earnings per share \$0.13
- Six Month earnings per share \$0.25
- Six Month EBITDA \$12.4 million

Outlook

The financial performance of the last six months of 2009 has been sustained throughout the first half of 2010. It is anticipated that this pace will continue with the potential for improvement over the next six months in both main business sectors. This has allowed the Company to substantially increase the dividends paid to shareholders to an annual rate of \$0.12 per share.

AirBoss-Defense sales should be slightly higher in the last half of the year due to the scheduling of shipments on annual contracts including CBRN gloves, over-boots and gas masks.

The recovery of the AirBoss rubber compounding business back to pre-2009 levels is underway and while the rate of improvement remains difficult to predict there were significant increases in volume in the second quarter. There is still significant overcapacity in the industry and highly competitive conditions will remain. We expect, however, to continue to progress towards historic sales levels with further volume increases forecast for the remaining six months of 2010.

The financial condition of the Company continues to be strong with an excellent working capital position and substantial unused borrowing capacity.



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 ("MD&A") of AirBoss of America Corp. ("AirBoss" or the "Company") for the three and six-month periods ended June 30, 2010 has been prepared as of August 11, 2010 and should be read in conjunction with the Unaudited Interim Consolidated Financial Statements and Notes prepared in accordance with Canadian generally accepted accounting principles. All tabular dollar amounts are shown in thousands of Canadian dollars 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.airbossofamerica.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, and mining 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 21 to 23.

Highlights

- \$0.13 earnings per share. Fourth consecutive strong quarter.
- Second quarter sales increase by 28% year-over-year.
- Six-month EBITDA \$12.4 million.
- Rubber Compounding shows steady improvement in profitability; Defense maintaining consistently strong results.

MD&A (cont'd)

Selected Financial Information

(\$ thousands, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Financial results:				
Net sales	62,014	48,545	115,899	101,630
Net income	3,047	(603)	6,079	(181)
Net income per share - Basic and Diluted	0.13	(0.03)	0.25	(0.01)
EBITDA (non-GAAP financial measure)	6,016	876	12,362	3,214
Net cash provided by operating activities	5,884	12,041	1,959	17,200
Dividends declared per share	0.03	0.025	0.05	0.025
Capital expenditures	510	992	911	2,042
(\$ thousands)			June 30, 2010	December 31, 2009
Financial Position:				
Total assets			138,155	134,752
Term loan and other debt			24,625	25,370
Shareholders' equity			75,139	69,993
Outstanding shares (000's)			23,935	23,899

Non-GAAP Financial measure

This MD&A is based on reported income in accordance with Canadian generally accepted accounting principles ("GAAP") and on the following non-GAAP financial measures, from continuing operations:

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

EBITDA, a non-GAAP measure, is directly derived from the consolidated financial statements, but does not have a standardized meaning prescribed by GAAP 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 GAAP and should not be considered in isolation or as a substitute for net income under GAAP.

A reconciliation of this measure is presented below:

(\$ thousands)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
EBITDA:				
Net Income before non-controlling interest	3,047	(650)	6,079	(181)
Net financing interest expense	380	424	750	948
Depreciation and amortization	1,367	1,689	2,566	2,843
Provision for income taxes	1,222	(587)	2,967	(396)
EBITDA	6,016	876	12,362	3,214

MD&A (cont'd)

RESULTS OF OPERATIONS – 2010 compared to 2009

NET SALES FROM CONTINUING OPERATIONS

Net Sales from continuing operations increased 27.7% for the quarter and 14% year-to-date primarily from higher compounding volumes. Approximately 87% (2009 – 84%) of all sales are invoiced in US Dollars. The average exchange rate (CAD to USD) for the first 6 months was \$1.03 in 2010 compared to \$1.21 in 2009.

Three months ended June 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Total
Net sales	2010	43,424	18,590	62,014
	2009	31,759	16,786	48,545
Increase \$		11,665	1,804	13,469
Increase %		36.7	10.7	27.7
Six months ended June 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Total
Net sales	2010	78,476	37,423	115,899
	2009	66,384	35,246	101,630
Increase \$		12,092	2,177	14,269
Increase %		18.2	6.2	14.0

Rubber Compounding

Sales increased by 36.7% or \$11.7 million for the quarter ended June 30, 2010 mainly as a result of a 25% increase in volume due to improved market conditions in North America. Price increases required to recover increased raw material prices and changes in customer mix increased sales, and this was partially offset by lower translation of US dollar sales. Year-to-date sales increased by \$12.1 million. Accordingly, 96% of the year-to-date increase in dollars occurred in the second quarter.

Most market sectors, including mining, transportation and conveyor belting, have enjoyed higher sales volumes compared to the same quarter in the previous year. The lone exception in the quarter was in defense transportation products. Further increases in volumes are forecast for the remainder of the year as the rubber industry continues to recover and new markets are successfully developed.

AirBoss Engineered Products

Sales increased by \$1.8 million to \$18.6 million or by 10.7% in the second quarter of 2010 compared to the same quarter of the previous year from higher industrial product volumes. Year-to-date sales have increased by \$2.2 million. The AirBoss-Defense sales accounted for 56% of the increase due to higher sales of CBRN protective gloves. Sales of industrial rubber products also showed a strong volume increase. Sales were negatively impacted in both businesses by the strengthening Canadian dollar.

Sales of defense products are expected to be slightly higher in the second half of the year as they will include gas mask deliveries to the Canadian military.

GROSS MARGIN

Gross margin for the quarter ended June 30, 2010 was \$8.7 million, an increase of \$7.8 million compared to 2009 primarily attributable to positive margins and higher volumes in Rubber Compounding. The percentage margin increased from 1.8% to 14.1%.

Three months ended June 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Total
Gross Margin	2010	3,299	5,417	8,716
	2009	(3,778)	4,664	886
Increase \$		7,077	753	7,830
% of net sales	2010	7.6	29.1	14.1
	2009	(11.9)	27.8	1.8
Six months ended June 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Total
Gross Margin	2010	5,104	11,530	16,634
	2009	(3,087)	8,954	5,867
Increase \$		8,191	2,576	10,767
% net of sales	2010	6.5	30.8	14.4
	2009	(4.7)	25.4	5.8

Rubber Compounding

Gross margin for Rubber Compounding increased by \$7.1 million in the quarter compared to 2009. The 2009 numbers were severely impacted by write-downs of raw material. The margins of 7.6% for the second quarter remain below historic levels but show improvement over the first quarter as volumes increase to the levels of 18 months ago.

There continues to be overcapacity in the industry and accordingly pricing will continue to be extremely competitive over the next six months. Raw materials which have risen in the first half of the year are expected to stabilize over the last six months.

MD&A (cont'd)

AirBoss Engineered Products

Gross margins for the second quarter increased by \$0.8 million and for the six-month period by \$2.6 million. Overall, volume increases in both defense and industrial products was offset by the negative impact of translating US dollar denominated sales.

OPERATING EXPENSES

Operating Expenses for the quarter ended June 30, 2010 were comparable to 2009 primarily as a result of increases in AEP being offset by decreases in Rubber Compounding. As a result of higher sales, the costs decreased as a percentage of sales and are 5.4% in 2010 compared to 6.5% in the previous year.

Three months ended June 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Operating expenses	2010	1,215	1,595	547	3,357
	2009	1,448	1,182	509	3,139
Increase (decrease) \$		(233)	413	38	218
% net of sales	2010	2.8	8.6	N/A	5.4
	2009	4.6	7.0	N/A	6.5
Six months ended June 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Operating expenses	2010	2,512	2,724	1,156	6,392
	2009	3,014	2,330	1,121	6,465
Increase (decrease) \$		(502)	394	35	(73)
% net of sales	2010	3.2	7.3	N/A	5.5
	2009	4.5	6.6	N/A	6.4

Rubber Compounding

Operating expenses decreased by \$0.2 million in the quarter and by \$0.5 year-to-date, due to the recovery of accounts receivable previously provided for.

AirBoss Engineered Products

Operating costs increased by \$0.4 million in the quarter and year-to-date due to incremental administrative costs in Vermont, and higher sales department costs.

Unallocated Corporate Costs

There was no material change.

INTEREST, FOREIGN EXCHANGE AND OTHER INCOME

Three months ended June 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Interest, FX & Other Income	2010	213	734	143	1,090
	2009	76	(449)	(643)	(1,016)
Increase \$		137	1,183	786	2,106
% net of sales	2010	0.5	3.9	N/A	1.8
	2009	0.2	(2.7)	N/A	(2.1)
Six months ended June 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Interest, FX & Other Income	2010	442	805	(51)	1,196
	2009	543	(498)	(66)	(21)
Increase (decrease) \$		101	1,303	15	1,217
% net of sales	2010	0.6	2.2	N/A	1.0
	2009	0.8	(1.4)	N/A	0.0

Interest expense for the three months ended June 30, 2010 and 2009 was \$0.4 million and year-to-date, was \$0.8 million (2009: \$0.9 million) and was impacted by lower borrowing levels.

Each quarter, the Company incurs unrealized foreign exchange gains and losses on the translation of foreign currency denominated asset and liability balances including forward contracts. The amount fluctuates from quarter to quarter and is dependent on exchange rates and the value of the net foreign assets or liabilities on hand. There was an exchange loss of \$0.2 million in the current quarter (2009: \$1.5 million gain) and for the year, there was a \$0.1 million gain (2009: \$0.8 million gain). To mitigate foreign exchange gains and losses, the Company uses a combination of US dollar denominated debt and forward sales of US dollars to hedge its net foreign currency balance sheet position. In addition, the Company sells forward its expected net US dollar receipts for the year when they are reasonably predictable, such as with the Defense division. As at June 30, 2010, the Company held forward contracts to sell US dollars totaling US \$19.5 million at an average rate of approximately CAD \$1.064. These contracts are recorded at fair market value.

Legal and other costs incurred of \$0.5 million related to the original purchase of AEP were recorded in AEP during the second quarter of 2010.

MD&A (cont'd)

INCOME TAX EXPENSE

The Company recorded an income tax expense of \$1.2 million in the quarter or an effective income tax rate for the period of 28.6% (47.5% in 2009), and on a year-to-date basis, \$3.0 million expense and an effective tax rate of 32.8% (68.6% in 2009).

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.

The primary factor contributing to the difference in effective tax rate:

- During the second quarter of 2010, the Company filed its 2009 Canadian tax returns and recognized certain differences on filing.
- The Company recorded a higher effective tax rate in the second quarter of 2009 as a result of future income tax adjustments relating to exchange rates.

NET INCOME AND EARNINGS PER SHARE

Net income in Q2 2010 amounted to \$3.0 million compared to net loss of \$0.6 million in 2009 primarily attributable to volume and improved margin in the compounding segment. The basic and fully diluted net income from continuing operations per share in the second quarter and year-to-date were \$0.13 (2009 - (\$0.03)) and \$0.25 (2009 - (\$0.01)) based on basic and fully diluted shares outstanding 23,905,000 (2009 - 23,743,000) and 24,136,000 (2009 - 23,775,000) respectively.

QUARTERLY INFORMATION

Quarter Ended	Net Sales	Net Income (Loss)		Net Income (Loss) Continuing Operations per share		Net Income (Loss) per share	
		Continuing Operations	Total	Basic	Diluted	Basic	Diluted
June 30, 2010	62,014	3,047	3,047	0.13	0.13	0.13	0.13
March 31, 2010	53,885	3,032	3,032	0.13	0.13	0.13	0.13
December 31, 2009	57,729	2,637	2,637	0.11	0.11	0.11	0.11
September 30, 2009	50,562	3,820	3,820	0.16	0.16	0.16	0.16
June 30, 2009	48,545	(603)	(603)	(0.03)	(0.03)	(0.03)	(0.03)
March 31, 2009	53,085	422	422	0.02	0.02	0.02	0.02
December 31, 2008	74,008	(6,950)	(6,756)	(0.29)	(0.29)	(0.28)	(0.28)
September 30, 2008	65,467	2,133	2,079	0.09	0.09	0.09	0.09

Items impacting comparability of quarters

- The fourth quarter of 2008 reflected a goodwill impairment charge of \$7.9 million.
- The first and second quarter of 2009 was impacted by lower margins in Rubber Compounding attributable to higher raw material costs not recovered from customers.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from continuing operations

AirBoss generated \$5.4 million in operating cash flow before changes in working capital, \$6.1 million higher than 2009, from higher net income.

Non-cash working capital

The investment in non-cash working capital relating to continuing operations increased by \$0.5 million in the second quarter of 2010 and decreased \$7.4 million on a year-to-date basis as follows:

Accounts receivable increased by \$4.6 million (\$9.6 million year-to-date) due to:

- Rubber Compounding receivables increased \$3.1 (\$8.4 million year-to-date) million from higher sales.
- AEP receivables increased \$1.5 million (\$1.2 million year-to-date) from the timing of collections – a large amount was collected subsequent to quarter end.

Prepaid expenses decreased by \$0.5 million (\$0.3 million year-to-date) relating to amortization of insurance premiums.

Inventories decreased by \$1.2 million (\$2.8 million year-to-date) due to:

- The rubber compounding segment experienced a \$1.7 million (\$2.3 million year-to-date) decrease in inventory as production and sales ramped up at the end of the quarter.
- AEP's inventory increased by \$0.6 million (\$0.5 million year-to-date) to cover required shipments during a planned shutdown in industrial products.

Accounts payable increased by \$2.7 million (\$0.1 million year-to-date):

- Rubber Compounding payables increased by \$1.6 million due to timing of inventory receipts versus settlement.
- AEP payables increased by \$1.6 million representing higher inventory levels, legal costs and other expenses.
- HO payables decreased by \$0.5 million due to payment of accrued legal fees.

Taxes receivable had increased by \$0.9 million during 2010. The Company has paid \$4.4 million toward 2009 taxes and current installments; and recovered \$0.1 million relating to a previous year and accrued \$3.4 million relating to the current year's expense.

MD&A (cont'd)

Capital expenditures

Capital expenditures were \$0.5 million (2009: \$1 million) in the second quarter of 2010 and \$0.9 million year-to-date (2009: \$2 million). Capital expenditures incurred in 2010 included \$0.3 million relating to the building in Acton and \$0.5 million relating to ongoing capital expenditures for manufacturing equipment.

Other assets

The net change in other assets includes \$0.1 million of software capitalized in the quarter and year-to-date.

Financing

No modifications to the operating line and term loan facility were negotiated during 2010.

The required principal payments of \$0.3 million (2009 - \$0.4 million) in the quarter (\$0.6 million year-to-date) were made pursuant to the loan agreement.

\$0.5 million of dividends declared in Q1 2010 were paid out in the quarter and \$1.4 million, of dividends were paid out in 2010.

At June 30, 2010, the Company had cash on hand of \$2.3 million (2009 - \$0.5 million) and an unused credit facility of \$35 million.

The Company expects to fund its 2010 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

In the normal course of business, the Rubber Compounding Division signed lease commitments in the second quarter of 2010 to replace forklift and office equipment. The following summarizes the incremental minimum lease payment during the term:

(\$ thousands)	Total	Payments Due In					
		2010	2011	2012	2013	2014	Thereafter
Operating leases	803	212	224	235	116	16	-

In the normal course of business, the Company has committed to purchase \$3.7 million of inventory during 2010.

Forward exchange contracts

At June 30, 2010, the Company has contracts to sell US \$19.5 million between July and November 2010 for CAD \$20.7 million.

The fair value of these contracts, representing a net loss of \$0.5 million, is recorded on the balance sheet included in "other assets" and foreign exchange gains and losses are recorded on the income statement as "foreign exchange gain (loss)."

Government assistance

AirBoss-Defense received US \$58,000 of federal grants in the first quarter and US \$34,000 in the second quarter of 2010 related to employee training and labour incentives in Vermont.

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 \$90,000 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. The rent paid for the three-month period ended June 30, 2010 was \$22,500 (2009: \$22,500) and \$45,000 (2009: \$45,000) for the six-month period.

The Company paid dues relating to a facility in South Carolina of approximately \$5,000 (2009: \$8,000) for the three-month period ended June 30, 2010 and \$10,000 (2009: \$11,000) during the year to a company in which the Chairman is an officer.

The Company renewed a \$0.1 million share purchase loan to an employee, due December 2, 2011 bearing interest at 2.5% annually with full recourse and is included in the financial statements under the caption "other assets", and 30,000 shares of the Company having a fair value of \$0.2 million were pledged as collateral.

NEW ACCOUNTING POLICIES

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises for interim and annual financial statements effective January 1, 2011. The Company will issue its financial statements in the first quarter of 2011 in accordance with IFRS including comparative data for 2010. The Company disclosed its preliminary IFRS accounting policy decisions in the 2009 Annual Management's Discussion and Analysis and we are progressing according to our plan. Asset appraisals are currently underway as well as a review of the functional currency; however, at this point we have not completed our quantification process and as a result, cannot determine the full impact of IFRS on our consolidated financial statements.

Business Combinations

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations" ("CICA 1582"). CICA 1582 requires that all assets and liabilities of an acquired business will be recorded at fair value on the acquisition date and is consistent with International Financial Reporting Standards ("IFRS"). Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011 with earlier adoption permitted.

In January 2009, the CICA issued Handbook Section 1601, "Consolidations" ("CICA 1601"), and Section 1602, "Non-controlling Interests" ("CICA 1602"). CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 with earlier adoption permitted. The Company is currently assessing the impact of the new standard on its financial statements.

MD&A (cont'd)

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three-month period ended June 30, 2010, 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 financial performance of the last six months of 2009 has been sustained throughout the first half of 2010. Trailing twelve month earnings at June 30, 2010 amounted to \$0.53 per share. It is anticipated that this pace will continue with the potential for improvement over the next six months in both main business sectors. This has allowed the Company to substantially increase the dividends paid to shareholders to an annual rate of \$0.12 per share.

AirBoss-Defense sales should be slightly higher in the last half of the year due to the scheduling of shipments on annual contracts including CBRN gloves, over-boots and gas masks.

The recovery of the AirBoss rubber compounding business back to pre-2009 levels is underway and while the rate of improvement remains difficult to predict there were significant increase in volumes in the second quarter. There is still significant overcapacity in the industry and highly competitive conditions will remain. We expect, however, to continue to progress towards historic sales levels with further volume increases forecast for the remaining six months of 2010.

The financial condition of the Company continues to be strong with an excellent working capital position and substantial unused borrowing capacity.

August 11, 2010



R.L. Hagerman
President and Chief Executive Officer



S.W. Richards
Vice-President Finance and CFO

Consolidated Balance Sheets

(thousands \$ CDN)

June 30, 2010 December 31, 2009

(unaudited)

ASSETS

Current assets:

Cash	2,492	3,660
Accounts receivable	37,559	27,931
Inventories	30,483	33,282
Prepaid expenses	438	748
Income taxes receivable	53	-

Total current assets	71,025	65,621
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Capital assets	52,004	53,496
Goodwill	7,182	7,182
Future income tax assets	6,083	5,666
Other assets	1,861	2,787

Total assets	138,155	134,752
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LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities	26,106	26,054
Income taxes payable	-	866
Dividends payable	718	956
Current portion of term loan and other debt	1,392	1,402

Total current liabilities	28,216	29,278
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Term loan and other debt	23,233	23,968
Future income tax liabilities	8,940	8,955
Accrued post retirement benefit liability	2,627	2,558

Total liabilities	63,016	64,759
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Commitments and contingencies (Note 5)

Shareholders' equity:

Share capital (Note 3)	41,110	40,962
Contributed surplus	1,699	1,584
Retained earnings	32,330	27,447

Total shareholders' equity	75,139	69,993
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Total liabilities and shareholders' equity	138,155	134,752
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See accompanying notes to consolidated financial statements.

On behalf of the Board



Robert L. Hagerman
Director



Robert L. McLeish
Director

Consolidated Statements of Income and Comprehensive Income

(unaudited) (thousands \$ CDN, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
NET SALES	62,014	48,545	115,899	101,630
Cost of sales (Note 5)	53,298	47,247	99,265	95,351
Loss on disposal	-	412	-	412
Total cost of sales	53,298	47,659	99,265	95,763
Gross margin	8,716	886	16,634	5,867
OPERATING EXPENSES				
General and administrative	1,973	1,920	4,016	4,012
Selling and marketing	1,185	939	2,041	1,935
Product research	199	280	335	518
Total operating expenses	3,357	3,139	6,392	6,465
Income (loss) before undernoted items	5,359	(2,253)	10,242	(598)
Other income (expense)	(508)	(23)	(553)	153
Foreign exchange gain (loss)	(202)	1,463	107	816
Interest expense	(380)	(424)	(750)	(948)
Interest, foreign exchange and other income (expense)	(1,090)	1,016	(1,196)	21
Income (loss) before income taxes and non-controlling interest	4,269	(1,237)	9,046	(577)
Recovery of (provision for) income taxes	(1,222)	587	(2,967)	396
Net income before non-controlling interest	3,047	(650)	6,079	(181)
Net income attributable to non-controlling interest	-	47	-	-
Net income and comprehensive income	3,047	(603)	6,079	(181)
Net income per share (Note 4)				
Basic and diluted	0.13	(0.03)	0.25	(0.01)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(unaudited) (thousands \$ CDN, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
CASH PROVIDED BY (USED IN):				
Operating Activities:				
Net income	3,047	(603)	6,079	(181)
Items not affecting cash:				
Amortization	1,367	1,689	2,566	2,843
Future income taxes	(292)	(86)	(432)	(144)
Non-controlling interest	-	(47)	-	-
Foreign exchange (gain) loss	1,083	(1,796)	761	(1,208)
Stock option expense	151	91	302	183
Post-retirement benefits expense	28	73	69	146
	5,384	(679)	9,345	1,639
Net change in non-cash working capital balances	500	12,883	(7,386)	17,023
Net cash provided by continuing operations	5,884	12,204	1,959	18,662
Net cash used in discontinued operations	-	(163)	-	(1,462)
Cash provided by operating activities	5,884	12,041	1,959	17,200
Investing Activities:				
Purchase of capital assets	(510)	(992)	(911)	(2,042)
Decrease (increase) in other assets	(58)	(177)	(96)	2,940
Cash provided by (used in) investing activities	(568)	(1,169)	(1,007)	898
Financing Activities:				
Net decrease in demand loan	(1,985)	(10,147)	-	(16,422)
Repayment of term loan	(322)	(351)	(647)	(706)
Dividends paid	(478)	-	(1,434)	(596)
NCIB	(39)	(374)	(39)	(374)
Cash used in financing activities	(2,824)	(10,872)	(2,120)	(18,098)
Increase (decrease) in cash during the period	2,492	-	(1,168)	-
Cash and short-term deposits at the beginning of the period	-	-	3,660	-
Cash and short-term deposits at the end of the period	2,492	-	2,492	-
Supplementary Cash Flow Information:				
Cash interest paid	333	394	667	874
Cash income taxes remitted	953	736	4,489	4,170
Trade-in proceeds	-	361	-	361

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(unaudited) (thousands \$ CDN)	Common shares		Contributed surplus	Retained Earnings	Total Shareholders' Equity
	Amount	Number of shares			
		(000's)			
Balance, December 31, 2009	40,962	23,899	1,584	27,447	69,993
Net income for the period	-	-	-	6,079	6,079
Dividends declared	-	-	-	(1,196)	(1,196)
Stock option expense	-	-	302	-	302
Exercise of stock options	161	43	(161)	-	-
Repurchase of common shares	(13)	(8)	(26)	-	(39)
Balance, June 30, 2010	41,110	23,934	1,699	32,330	75,139

(unaudited) (thousands \$ CDN)	Common shares		Contributed surplus	Retained Earnings	Total Shareholders' Equity
	Amount	Number of shares			
		(000's)			
Balance, December 31, 2008	40,537	23,805	1,911	23,245	65,693
Change in accounting policy related to Goodwill and Intangible assets (Note 2)	-	-	-	(527)	(527)
As restated, January 1, 2009	40,537	23,805	1,911	22,718	65,166
Net loss for the period	-	-	-	(181)	(181)
Dividends declared	-	-	-	(591)	(591)
Stock option expense	-	-	183	-	183
Repurchase of common shares	(282)	(166)	(92)	-	(374)
Balance, June 30, 2009	40,255	23,639	2,002	21,946	64,203

Notes to Consolidated Financial Statements

Three months ended June 30, 2010 and 2009

(Unaudited, tabular amounts in thousands of Canadian dollars, except per share amounts)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These unaudited interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, and its joint venture over which the Company has significant control (collectively, the "Company"). Inter-Company balances and transactions have been eliminated upon consolidation. The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for financial statements. However, certain additional disclosures are required for annual financial statements, and accordingly, these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2009. The unaudited interim consolidated financial statements have been prepared on a basis consistent with the policies set out in the Company's consolidated annual financial statements for fiscal 2009.

Seasonality

The Company is affected by seasonal factors in that rubber compounding volumes are normally lower in the first and fourth quarter.

NOTE 2 CHANGES IN ACCOUNTING POLICIES

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises for interim and annual financial statements effective January 1, 2011. The Company will issue its financial statements in the first quarter of 2011 in accordance with IFRS including comparative data for 2010. The Company disclosed its preliminary IFRS accounting policy decisions in the 2009 Annual Management's Discussion and Analysis and we are progressing according to our plan. Asset appraisals are currently underway as well as a review of the functional currency; however, at this point we have not completed our quantification process and as a result, cannot determine the full impact of IFRS on our consolidated financial statements.

NOTE 3 CAPITAL TRANSACTIONS

	June 30, 2010	December 31, 2009
Number of common shares outstanding	23,934,575	23,899,023
Number of options outstanding	1,867,000	1,933,000

Stock Options

During the first quarter of 2010, 120,000 options were granted and 50,000 options were exercised on a cash-less basis for 11,619 shares valued at \$42,000.

The fair value of options issued has been determined using the following assumptions:

Assumptions

Risk-free rate	2.8%
Dividend yield	1.60%
Volatility factor of the expected market price of the Company's shares	48.8%
Average expected option life (years)	5.0
Weighted-average grant date fair value per share of options granted during the period	1.99

During the second quarter of 2010, no options were granted. Also, during the second quarter of 2010, 136,000 options were exercised on a cash-less basis for 31,733 shares valued at \$119,000.

Stock Based Compensation

During the quarter, the Company recorded stock-based compensation on a graded vesting model basis of \$151,000 (\$91,500 in 2009) relating to current and prior year option grants in general and administrative expenses of the statement of income. For the six-month year-to-date period, the expense was \$302,000 compared to \$183,000 in 2009.

Dividends

A quarterly dividend on common shares for 2010 was paid April 21, 2010 at a rate of \$0.02 per share. The quarterly dividend was increased to \$0.03 for the second quarter, payable July 22, 2010 for shareholders of record at June 30, 2010.

Normal Course Issuer Bid ("NCIB")

During 2010, the Company purchased for cancellation 7,800 (2009: 166,000) of its outstanding common shares pursuant to the NCIB for a purchase price of \$39,000 (2009: \$374,000).

NOTE 4 EARNINGS PER SHARE

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

December 31	2010	2009
Numerator for basic and diluted earnings per share:		
Net income	6,079	(181)
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	23,904	23,775
Dilution effect of stock options	221	-
Diluted weighted average number of shares outstanding	24,125	23,775
Net income per share:		
- Basic and diluted	0.25	(0.01)

Notes to CFS (cont'd)

NOTE 5 COMMITMENTS, CONTINGENCIES AND RELATED PARTY TRANSACTIONS**Commitments**

In the normal course of business, the Rubber Compounding Division signed lease commitments in the second quarter of 2010 to replace forklift and office equipment. The following summarizes the incremental minimum lease payment during the term:

	Total	Payments Due In					Thereafter
		2010	2011	2012	2013	2014	
Operating leases	803	212	224	235	116	16	-

In the normal course of business, the Company has committed to purchase \$3.7 million of inventory during 2010.

At June 30, 2010, the Company has contracts to sell US \$19.5 million between July and November, 2010 for CAD \$20.7 million (2009 - US \$34.5 million to June 30, 2010 for CAD \$40.5 million).

In connection with the sale of the assets of the Railway business, the Company may be subject to product liability claims for a period of 2 years relating to product sold as of December 15, 2008. The Company does not anticipate that product liability claims will have a material impact on the financial condition of the Company as it maintains product liability coverage related to such claims.

Related Party Transactions

Included in the operating lease commitments is a rental agreement for corporate office space between the Company and a company controlled by the Chairman of the Company. The lease provides for monthly payments equivalent to an annual rental of \$90,000 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. The annual rental of \$90,000 per annum approximated fair market rental value at the inception of the lease in 2002. Lease payments for corporate office space paid to a company controlled by the Chairman of the Company were \$22,500 (2009: \$22,500) for the three-month period ending June 30, 2010 and \$45,000 (2009: \$45,000) for the six-month period.

The Company paid annual dues relating to a facility in South Carolina of approximately \$5,000 (2009: \$8,000) for the three-month period ended June 30, 2010 and \$10,000 (2009: \$11,000) during the year to a company in which the Chairman is an officer.

In 2009, the Company renewed a \$0.1 million share purchase loan to an employee due December 2, 2011 bearing interest at 2.5% annually with full recourse and is included in the balance sheet under the caption "other assets" and 30,000 shares of the Company having a fair value of \$0.1 million were pledged as collateral. Interest is recorded as interest income.

Government assistance

AirBoss-Defense received \$34,000 of federal grants in the second quarter related to employee training and labour incentives in Vermont. This has been reflected on the income statement in "cost of sales".

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 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 \$4.7 million plus interest. 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. After being unable to reach an out of court settlement, the Company has accrued and expensed \$0.5 million at December 31, 2009 representing the estimated costs of the trial and expensed an additional \$0.5 million in the second quarter of 2010. A trial took place between May and June 2010 before the Superior Court of Québec – No judgment has been rendered as of this date.

NOTE 6 POST RETIREMENT BENEFITS

During the three-month period ended June 30, 2010 and 2009, the Company's future retirement benefit expenses were \$28,000 and \$73,000 respectively and for the six month year-to-date, these amounts were \$69,000 and \$146,000.

NOTE 7 SEGMENTED INFORMATION

The Company is comprised of two significant business segments, each of which has a separate operational management. The Rubber Compounding segment produces custom rubber compounds used in various industrial applications. The AirBoss Engineered Products segment ("AEP") produces rubber protective products, including footwear and gloves, and further processed rubber compounds.

Net sales by geographic segment is presented to eliminate inter-company sales. 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. The Company operates within North America with respect to its rubber compound products and globally with respect to its rubber protective products, and has production facilities in Canada and the United States.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. The Company evaluates performance of its operating segments based on operating income.

Assets employed include accounts receivable, inventories, prepaid expenses, capital assets, goodwill and other assets.

Notes to CFS (cont'd)

NOTE 7 SEGMENTED INFORMATION (cont'd)

	Net sales excluding inter-company				
	Canada	US	Other	Total	Inter-Company
Three months ended June 2010					
Rubber Compounding Operations	17,437	24,421	1,566	43,424	1,588
AEP and Other	1,927	16,247	416	18,590	2,827
Total	19,364	40,668	1,982	62,014	4,415
Three months ended June 2009					
Rubber Compounding Operations	11,538	20,104	117	31,759	1,479
AEP and Other	2,233	13,917	636	16,786	3,762
Total	13,771	34,021	753	48,545	5,241

	Rubber Compounding Operations	AEP & Other	Corporate and Inter-Company Eliminations	Total
Three months ended June 2010				
Net sales	45,012	21,417	(4,415)	62,014
Operating income (loss)	2,084	3,822	(547)	5,359
Amortization of capital and other assets	746	600	21	1,367
Purchase of capital and other assets	283	285	-	568
Three months ended June 2009				
Sales	33,238	20,548	(5,241)	48,545
Operating income (loss)	(5,226)	3,482	(509)	(2,253)
Amortization of capital assets and other assets	1,053	616	20	1,689
Purchase of capital and other assets	799	554	-	1,353

	Net sales excluding inter-company				
	Canada	US	Other	Total	Inter-Company
Six-months ended June 2010					
Rubber Compounding Operations	29,660	47,154	1,662	78,476	4,432
AEP and Other	3,558	32,206	1,659	37,423	5,600
Total	33,218	79,360	3,321	115,899	10,032
Six-months ended June 2009					
Rubber Compounding Operations	24,332	41,851	201	66,384	2,184
AEP and Other	5,175	27,446	2,625	35,246	7,083
Total	29,507	69,297	2,826	101,630	9,267

	Rubber Compounding Operations	AEP & Other	Corporate and Inter-Company Eliminations	Total
Six-months ended June 2010				
Net Sales	82,908	43,023	(10,032)	115,899
Operating income (loss)	2,592	8,806	(1,156)	10,242
Amortization of capital assets and other assets	1,393	1,131	42	2,566
Purchase of capital and other assets	458	549	-	1,007
Assets employed				
Canada	58,836	42,113	12,603	113,552
US	19,659	4,944	-	24,603
Total	78,495	47,057	12,603	138,155
Six-months ended June 2009				
Net Sales	68,568	42,329	(9,267)	101,630
Operating income (loss)	(6,101)	6,624	(1,121)	(598)
Amortization of capital assets and other assets	1,724	1,077	42	2,843
Purchase of capital and other assets	1,272	1,126	5	2,403
Assets employed				
Canada	56,566	44,111	3,428	104,105
US	19,623	-	-	19,623
Total	76,189	44,111	3,428	123,728

AirBoss of America Corp.

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