

Q3

Third Quarter Interim Report 2010



AirBoss of America Corp.

AirBoss of America 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

Q3 2010 Highlights:

- 18% sales increase for the quarter
- Pre-tax YTD operating income increase of 176%
- EPS for nine months \$0.40; a 167% increase
- \$22 million in military orders received

AirBoss Engineered Products

Sales for the nine-month period increased by 3.7% to \$57.2 million as the result of increased volumes of industrial rubber products and the continued high demand for CBRN military protective wear. The increase is net of a 6% negative impact of the rising Canadian dollar on sales denominated in US dollars.

Sales of defense products are expected to be slightly higher in the last quarter of the year due to sales of gas masks, a successful bid for the supply of tank track repair materials and the continued demand for CBRN protective wear. This is expected to continue through the second quarter of 2011 as a result of the receipt of orders from the US military of \$15.2 million for CBRN gloves and \$7 million for CBRN footwear. These orders completed the 2010 US budget allocation and the first orders relating to the 2011 military budget are anticipated in the first quarter of next year.

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

AirBoss Rubber Compounding

The Rubber Compounding Division continued its improved performance in the third quarter with volumes increasing by 14% for the quarter and 21% year-to-date. Sales dollars for the quarter increased by 31% compared to the same period in 2009 reflecting increased raw material costs and volumes offset partially by the rising Canadian dollar. Sales dollars increased by 22% year-to-date.

Mixing activity for OEM tire companies represented 7% of the quarterly production volume and this business is expected to double production at our Scotland Neck facility throughout the fourth quarter. We anticipate this toll mixing for tire companies to utilize a significant portion of our previously excess capacity over the next six to nine months.

The business was able to record an improved operating profit for the quarter as a result of the higher level of capacity utilization which was experienced in virtually all major industry sectors.

Raw material prices were relatively flat for the last half of the quarter and are expected to remain so for the remainder of the year. Year-over-year, they have generally risen with increases in natural rubber again being the most significant.

Outlook

The improved financial performance continued in both business segments, AirBoss Rubber Compounding and AirBoss Engineered Products in the third quarter and we expect this to be maintained for the balance of the year. Announced orders for CBRN military protective wear are significant and will ensure we continue to operate at extremely high levels of capacity.

At AirBoss Rubber Compounding, the ramp up of business for OEM tire makers will also have a significant impact on capacity utilization which should, in turn, positively impact profitability.

The financial condition of the Company continues to be strong with an excellent working capital position and substantial unused borrowing capacity. We continue to pursue opportunities to broaden the scope of AirBoss in personal protection and polymer products through both acquisition and product development.



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 nine-month periods ended September 30, 2010 has been prepared as of November 10, 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.

MD&A (cont'd)

Highlights

- 18% sales increase for the quarter
- Pre-tax YTD operating income increase of 176%
- EPS for nine months \$0.40; a 167% increase
- \$22 million in military orders received

Selected Financial Information

	Three months ended September 30		Nine months ended September 30	
(\$ thousands, except per share amounts)	2010	2009	2010	2009
Financial results:				
Net sales	59,868	50,562	175,767	152,192
Net income	3,521	3,820	9,600	3,639
Net income per share - Basic and Diluted	0.15	0.16	0.40	0.15
EBITDA (non-GAAP financial measure)	7,369	7,645	19,731	10,859
Net cash provided by continuing operating activities	6,429	5,615	8,388	24,277
Dividends declared per share	0.03	-	0.08	0.025
Capital expenditures	1,340	1,379	2,251	3,421
(\$ thousands)			September 30, 2010	December 31, 2009
Financial Position:				
Total assets			143,613	134,752
Term loan and other debt			24,236	25,370
Shareholders' equity			78,168	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:

	Three months ended September 30		Nine months ended September 30	
(\$ thousands)	2010	2009	2010	2009
EBITDA:				
Net income	3,521	3,820	9,600	3,639
Net financing interest expense	374	406	1,124	1,354
Depreciation and amortization	1,337	1,341	3,903	4,184
Provision for income taxes	2,137	2,078	5,104	1,682
EBITDA	7,369	7,645	19,731	10,859

MD&A (cont'd)

RESULTS OF OPERATIONS – 2010 compared to 2009

NET SALES FROM CONTINUING OPERATIONS

Net Sales from continuing operations increased by 18.4% for the quarter and 15.5% year-to-date primarily from higher compounding volumes. Approximately 86% (2009 – 83%) of all sales are invoiced in US Dollars. A weaker US dollar reduced revenue in the quarter by \$2.7 million and \$17.4 million year-to-date. The average exchange rate (CAD to USD) for the first 9 months was \$1.04 in 2010 compared to \$1.17 in 2009.

Three months ended September 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Total
Net sales	2010	40,059	19,809	59,868
	2009	30,621	19,941	50,562
Increase (decrease) \$		9,438	(132)	9,306
Increase (decrease) %		30.8	(0.7)	18.4
Nine months ended September 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Total
Net sales	2010	118,535	57,232	175,767
	2009	97,005	55,187	152,192
Increase \$		21,530	2,045	23,575
Increase %		22.2	3.7	15.5

Rubber Compounding

Sales increased by 30.8% or \$9.4 million for the quarter ended September 30, 2010 mainly as a result of raw material price increases and a 14% increase in volume. Unit prices were increased to recover the increased cost of raw materials. This increase was tempered by the impact of the rising Canadian dollar. Year-to-date sales have increased by \$21.5 million.

Virtually all market sectors have enjoyed higher sales volumes compared to the same quarter in the previous year. Mixing activity for OEM tire companies represented 7% of the quarterly production volume and this business is expected to increase dramatically through the fourth quarter.

AirBoss Engineered Products

Sales decreased by \$0.1 million to \$19.8 million or by 0.7% in the third quarter of 2010 compared to the same quarter of the previous year due to the impact of the rising Canadian dollar. Year-to-date sales have increased by \$2.0 million (net of a \$3.7 million decrease due to the rising Canadian dollar) primarily from higher defense product sales. Sales of industrial rubber products also showed a strong volume increase.

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

GROSS MARGIN

Gross margin for the quarter ended September 30, 2010 was \$9.1 million, an increase of \$1.0 million compared to 2009 primarily attributable to positive margins and higher volumes in Rubber Compounding. The percentage margin decreased 0.9% as the impact of higher volumes in Rubber Compounding was more than offset by a weaker US dollar in AEP.

Three months ended September 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Total
Gross Margin	2010	3,009	6,098	9,107
	2009	1,593	6,537	8,130
Increase (decrease) \$		1,416	(439)	977
% of net sales	2010	7.5	30.8	15.2
	2009	5.2	32.8	16.1
Nine months ended September 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Total
Gross Margin	2010	8,113	17,628	25,741
	2009	(1,494)	15,491	13,997
Increase \$		9,607	2,137	11,744
% net of sales	2010	6.8	30.8	14.6
	2009	(1.5)	28.1	9.2

Rubber Compounding

Gross margin for Rubber Compounding increased by \$1.4 million in the quarter compared to 2009. The 2009 numbers were severely impacted by write-downs of raw material. The margins, adjusted to remove the effect of tolling revenue (revenue earned from mixing customer supplied raw materials), were 7.3% for the third quarter and are steadily approaching traditional levels as volumes increase and production efficiencies are achieved.

AirBoss Engineered Products

Gross margins for the third quarter decreased by \$0.4 million and for the nine-month period increased by \$2.1 million. A weaker US dollar reduced margins by \$0.7 million in the quarter.

MD&A (cont'd)

OPERATING EXPENSES

Operating Expenses for the quarter ended September 30, 2010 were comparable to 2009 primarily as a result of increases in AEP being offset by decreases in Rubber Compounding. Operating costs for the quarter decreased as a percentage of sales by 1.7% to 5.4% in 2010 compared to 7.1% in the previous year due to higher volumes.

Three months ended September 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Operating expenses	2010	1,283	1,319	640	3,242
	2009	1,892	1,178	497	3,567
Increase (decrease) \$		(609)	141	143	(325)
% net of sales	2010	3.2	6.7	N/A	5.4
	2009	6.2	5.9	N/A	7.1

Nine months ended September 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Operating expenses	2010	3,795	4,043	1,796	9,634
	2009	4,906	3,508	1,618	10,032
Increase (decrease) \$		(1,111)	535	178	(398)
% net of sales	2010	3.2	7.1	N/A	5.5
	2009	5.1	6.4	N/A	6.6

Rubber Compounding

In Q3 2009, a certain customer had filed for bankruptcy and a portion of the amounts owing was provided for. During 2010, most of the amount owing has been collected and the provision has been reversed. The net impact is \$0.5 million for the quarter and \$1 million year-to-date compared to 2009.

AirBoss Engineered Products

Operating costs increased by \$0.1 million in the quarter and \$0.5 million year-to-date due to incremental administrative costs relating to the Vermont facility, as well as new hires and variable sales department costs.

Unallocated Corporate Costs

The quarter and year-to-date costs were impacted \$0.1 million and \$0.2 million by additional stock options granted and a decrease in retirement expense.

INTEREST, FOREIGN EXCHANGE AND OTHER INCOME

Three months ended September 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Interest, FX & Other Income	2010	(181)	283	105	207
	2009	(210)	(600)	(525)	(1,335)
Increase \$		29	883	630	1,542
% net of sales	2010	(0.5)	1.4	N/A	0.3
	2009	(0.7)	(3.0)	N/A	(2.6)

Nine months ended September 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Interest, FX & Other Income	2010	260	1,087	56	1,403
	2009	333	(1,098)	(591)	(1,356)
Increase (decrease) \$		(73)	2,185	647	2,759
% net of sales	2010	0.2	1.9	N/A	0.8
	2009	0.3	(2.0)	N/A	(0.9)

Interest expense for the three months ended September 30, 2010 and 2009 was \$0.4 million and year-to-date, was \$1.1 million (2009: \$1.4 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 gain of \$0.2 million in the current quarter (2009: \$1.7 million gain) and for the year, there was a \$0.3 million gain (2009: \$2.6 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 September 30, 2010, the Company held forward contracts to sell US dollars totaling US \$14.5 million at an average rate of approximately CAD \$1.061. 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 \$2.1 million in the quarter or an effective income tax rate for the period of 37.8% (35.2% in 2009), and on a year-to-date basis, \$5.1 million expense and an effective tax rate of 34.7% (31.6% 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 and in the third quarter relating to filing differences relating to US tax returns.

NET INCOME AND EARNINGS PER SHARE

Net income in Q3 2010 amounted to \$3.5 million compared to \$3.8 million in 2009 primarily attributable to a US denominated sales of the defense products. The basic and fully diluted net income from continuing operations per share in the third quarter and year-to-date were \$0.15 (2009 – \$0.16) and \$0.40 (2009 – \$0.15) based on basic and fully diluted shares outstanding 23,935,000 (2009 – 23,639,000) and 24,146,000 (2009 – 23,639,000) for the quarter and 23,915,000 (2009 – 23,730,000) and 24,130,000 (2009 – 23,730,000) on a year-to-date basis.

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
September 30, 2010	59,868	3,521	3,521	0.15	0.15	0.15	0.15
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)

Items impacting comparability of quarters

- The fourth quarter of 2008 reflected a goodwill impairment charge of \$7.9 million.
- The first and second quarters of 2009 were 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 \$4.7 million in operating cash flow before changes in working capital, \$0.3 million lower than 2009, and \$14 million year-to-date (2009: \$6.6 million) from higher net income.

Non-cash working capital

The investment in non-cash working capital relating to continuing operations decreased by \$1.8 million in the third quarter of 2010 and increased \$5.6 million on a year-to-date basis as follows:

Accounts receivable decreased by \$1.8 million (\$7.8 million increase year-to-date) due to:

- Rubber Compounding receivables decreased \$1.0 million (increased \$7.4 million year-to-date) as sales were lower in Q3 compared to Q2.
- AEP receivables decreased \$0.8 million (increased \$0.5 million year-to-date) from the timing of collections – a large past due amount was collected in the quarter.

Prepaid expenses increased by \$1 million (\$0.7 million year-to-date) relating to premiums for the annual renewal of insurance policies.

Inventories increased by \$2 million (\$0.9 million decrease year-to-date) due to:

- The rubber compounding segment increased its inventory level by \$1.7 million from the second quarter to bring it in line with anticipated customer requirements. Inventory decreased \$0.7 million year-to-date and reflects the impact of customer supplied raw materials relating to a co-purchase arrangement.
- AEP's inventory was impacted by the timing of production and sales in the quarter and year-to-date. Inventory of gloves rose \$0.3 million in the quarter to fill October orders and dropped \$0.2 million year-to-date as sales exceeded production levels of over-boots.

MD&A (cont'd)

Accounts payable decreased by \$0.5 million (\$0.4 million year-to-date):

- Rubber Compounding payables decreased by \$0.2 million in the quarter and \$0.6 million year-to-date due to timing of inventory receipts versus settlement.
- AEP payables decreased by \$0.3 million in the quarter from the settlement of vacation liabilities offset by an increase in raw material inventories and increased \$0.3 million year-to-date for legal costs and raw material inventories.
- HO payables decreased by \$0.2 million year-to-date due to payment of bonus accruals.

Taxes payable had increased by \$2.5 million during 2010. The Company has paid \$5.3 million toward 2009 taxes and current installments, recovered \$1.9 million relating to a previous year and accrued \$6 million relating to the current year's expense.

Capital expenditures

Capital expenditures were \$1.3 million (2009: \$1.4 million) in the third quarter of 2010 and \$2.3 million year-to-date (2009: \$3.4 million). Capital expenditures incurred in 2010 were primarily for sustaining capital requirements of which, \$0.4 million related to the buildings, \$1.2 million for manufacturing equipment and \$0.5 million relating to various incomplete capital projects.

Other assets

The net change in other assets includes \$0.1 million of software capitalized in the quarter and \$0.2 million 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 – \$0.3 million) in the quarter (\$1.0 million year-to-date) were made pursuant to the loan agreement.

\$0.7 million of dividends declared in Q2 2010 were paid out in the quarter and \$2.2 million of dividends were paid out in 2010.

At September 30, 2010, the Company had cash on hand before outstanding cheques of \$8.2 million (2009 – \$2.1 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 payments required 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 \$4.3 million of inventory during 2010.

Forward exchange contracts

At September 30, 2010, the Company has contracts to sell US \$14.5 million between October and December 2010 for CAD \$15.4 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 included in the income statement as "foreign exchange gain (loss)."

Government assistance

AirBoss-Defense received US \$106,000 of federal grants during 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 September 30, 2010 was \$22,500 (2009: \$22,500) and \$67,500 (2009: \$67,500) for the nine-month period.

The Company paid dues relating to a facility in South Carolina of approximately \$5,000 (2009: \$5,200) for the three-month period ended September 30, 2010 and \$15,000 (2009: \$16,700) during the year to a company in which the Chairman is an officer.

On December 3, 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 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.

MD&A (cont'd)

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three-month period ended September 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 improved financial performance continued in both business segments, AirBoss Rubber Compounding and AirBoss Engineered Products in the third quarter and we expect this to continue for the balance of the year. Announced orders for CBRN military protective wear are significant and will ensure we continue to operate at extremely high levels of capacity.


At AirBoss Rubber Compounding, the ramp up of business for OEM tire makers will also have a significant impact on capacity utilization which should, in turn, positively impact profitability.

The financial condition of the Company continues to be strong with an excellent working capital position and substantial unused borrowing capacity. We continue to pursue opportunities to broaden the scope of AirBoss in personal protection and polymer products through both acquisition and product development.

November 10, 2010



R.L. Hagerman
President and Chief Executive Officer



S.W. Richards
Vice-President Finance and CFO

NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

For the three and nine month periods ended September 30, 2010 and 2009

Pursuant to Ontario Securities Legislation's National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company for the interim periods ended September 30, 2010 and 2009 have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the Company's management.

The Company's independent auditors, KPMG LLP, have not performed a review of these interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Dated this 10th day of November, 2010.

Consolidated Balance Sheets

(thousands \$ CDN)

September 30, 2010

December 31, 2009

(unaudited)

ASSETS

Current assets:

Cash	6,486	3,660
Accounts receivable	35,776	27,931
Inventories	32,435	33,282
Prepaid expenses	1,434	748
Total current assets	76,131	65,621

Capital assets	52,092	53,496
Goodwill	7,182	7,182
Future income tax assets	6,398	5,666
Other assets	1,810	2,787
Total assets	143,613	134,752

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities	25,632	26,054
Income taxes payable	3,356	866
Dividends payable	723	956
Current portion of term loan and other debt	1,385	1,402
Total current liabilities	31,096	29,278

Term loan and other debt	22,851	23,968
Future income tax liabilities	8,830	8,955
Accrued post retirement benefit liability	2,668	2,558
Total liabilities	65,445	64,759

Commitments and contingencies (Note 5)

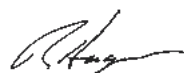
Shareholders' equity:

Share capital (Note 3)	41,110	40,962
Contributed surplus	1,930	1,584
Retained earnings	35,128	27,447
Total shareholders' equity	78,168	69,993

Total liabilities and shareholders' equity	143,613	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 September 30		Nine months ended September 30	
	2010	2009	2010	2009
NET SALES	59,868	50,562	175,767	152,192
Cost of sales (Note 5)	50,761	42,432	150,026	137,783
Loss on disposal	-	-	-	412
Total cost of sales	50,761	42,432	150,026	138,195
Gross margin	9,107	8,130	25,741	13,997
OPERATING EXPENSES				
General and administrative	1,901	2,351	5,917	6,363
Selling and marketing	1,137	972	3,178	2,907
Product research	204	244	539	762
Total operating expenses	3,242	3,567	9,634	10,032
Income before undernoted items	5,865	4,563	16,107	3,965
Other income (expense)	(13)	(1)	(566)	152
Foreign exchange gain (loss)	180	1,742	287	2,558
Interest expense	(374)	(406)	(1,124)	(1,354)
Interest, foreign exchange and other income (expense)	(207)	1,335	(1,403)	1,356
Income before income taxes	5,658	5,898	14,704	5,321
Provision for income taxes	(2,137)	(2,078)	(5,104)	(1,682)
Net income and comprehensive income	3,521	3,820	9,600	3,639
Net income per share (Note 4)				
Basic and diluted	0.15	0.16	0.40	0.15

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(unaudited) (thousands \$ CDN, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
CASH PROVIDED BY (USED IN):				
Operating Activities:				
Net income	3,521	3,820	9,600	3,639
Items not affecting cash:				
Amortization	1,337	1,341	3,903	4,184
Future income taxes	(425)	903	(857)	759
Loss on disposal of capital assets	-	44	-	44
Foreign exchange (gain) loss	(45)	(1,301)	716	(2,509)
Stock option expense	230	92	532	275
Post-retirement benefits expense	41	72	110	218
	4,659	4,971	14,004	6,610
Net change in non-cash working capital balances	1,770	644	(5,616)	17,667
Net cash provided by continuing operations	6,429	5,615	8,388	24,277
Net cash used in discontinued operations	-	(947)	-	(2,409)
Cash provided by operating activities	6,429	4,668	8,388	21,868
Investing Activities:				
Purchase of capital assets	(1,340)	(1,379)	(2,251)	(3,421)
Decrease (increase) in other assets	(54)	(146)	(150)	2,794
Cash used in investing activities	(1,394)	(1,525)	(2,401)	(627)
Financing Activities:				
Net decrease in demand loan	-	(1,366)	-	(17,788)
Repayment of term loan	(323)	(331)	(970)	(1,037)
Dividends paid	(718)	(591)	(2,152)	(1,187)
NCIB	-	-	(39)	(374)
Cash used in financing activities	(1,041)	(2,288)	(3,161)	(20,386)
Increase in cash during the period	3,994	855	2,826	855
Cash and short-term deposits at the beginning of the period	2,492	-	3,660	-
Cash and short-term deposits at the end of the period	6,486	855	6,486	855
Supplementary Cash Flow Information:				
Cash interest paid	325	458	992	1,332
Cash income taxes remitted	768	754	5,316	4,924
Cash income taxes refunded	(1,839)	(59)	(1,899)	(59)
Trade-in proceeds	-	-	-	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	-	-	-	9,600	9,600
Dividends declared	-	-	-	(1,919)	(1,919)
Stock option expense	-	-	533	-	533
Exercise of stock options	161	43	(161)	-	-
Repurchase of common shares	(13)	(8)	(26)	-	(39)
Balance, September 30, 2010	41,110	23,934	1,930	35,128	78,168

(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 income for the period	-	-	-	3,639	3,639
Dividends declared	-	-	-	(591)	(591)
Stock option expense	-	-	275	-	275
Repurchase of common shares	(282)	(166)	(92)	-	(374)
Balance, September 30, 2009	40,255	23,639	2,094	25,766	68,115

Notes to Consolidated Financial Statements

Three and nine months ended September 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 interim 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

	September 30, 2010	December 31, 2009
Number of common shares outstanding	23,934,575	23,899,023
Number of options outstanding	1,983,000	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.

During the third quarter of 2010, 136,000 options were granted and 20,000 options expired.

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

Assumptions

Risk-free rate	2.35%
Dividend yield	1.52%
Volatility factor of the expected market price of the Company's shares	49.20%
Average expected option life (years)	5.0
Weighted-average grant date fair value per share of options granted during the period	2.10

Stock Based Compensation

During the quarter, the Company recorded stock-based compensation on a graded vesting model basis of \$230,600 (\$91,500 in 2009) relating to current and prior year option grants in general and administrative expenses of the statement of income. For the nine-month year-to-date period, the expense was \$532,000 compared to \$274,000 in 2009.

Dividends

A quarterly dividend on common shares for the second quarter of 2010 was paid July 22, 2010 at a rate of \$0.03 per share. The quarterly dividend of \$0.03 for the third quarter, is payable October 21, 2010 for shareholders of record at September 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).

Notes to CFS (cont'd)

NOTE 4 EARNINGS PER SHARE

The following table sets forth the calculation of basic and diluted earnings per share for the nine-month year to date period:

September 30	2010	2009
Numerator for basic and diluted earnings per share:		
Net income	9,600	3,639
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	23,935	23,730
Dilution effect of stock options	215	-
Diluted weighted average number of shares outstanding	24,150	23,730
Net income per share:		
- Basic and diluted	0.40	0.15

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:

	Payments Due In						
	Total	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 \$4.3 million of inventory during 2010.

At September 30, 2010, the Company has contracts to sell US \$14.5 million between October and December, 2010 for CAD \$15.4 million (2009 – US \$28.5 million for CAD \$32.5 million, as well as £1.6 million for CAD \$2.9 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 September 30, 2010 and \$67,500 (2009: \$67,500) for the nine-month period.

The Company paid annual dues relating to a facility in South Carolina of approximately \$5,000 (2009: \$5,200) for the three-month period ended September 30, 2010 and \$15,000 (2009: \$16,700) 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. It 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 US \$106,000 of federal grants during 2010 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 September 30, 2010 and 2009, the Company's future retirement benefit expenses were \$41,000 and \$72,000 respectively and for the nine-month year-to-date, these amounts were \$110,000 and \$218,000.

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 are 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.

Notes to CFS (cont'd)

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.

NOTE 7 SEGMENTED INFORMATION (cont'd)

	Net sales excluding Inter-Company				Inter-Company
	Canada	US	Other	Total	
Three months ended September 2010					
Rubber Compounding Operations	15,293	23,541	1,225	40,059	801
AEP and Other	2,945	16,714	150	19,809	3,080
Total	18,238	40,255	1,375	59,868	3,881
Three months ended September 2009					
Rubber Compounding Operations	10,276	20,124	221	30,621	(519)
AEP and Other	3,624	14,450	1,867	19,941	3,666
Total	13,900	34,574	2,088	50,562	3,147

	Rubber Compounding Operations	AEP & Other	Corporate and Inter-Company Eliminations	Total
Three months ended September 2010				
Net sales	40,859	22,890	(3,881)	59,868
Operating income (loss)	1,726	4,779	(640)	5,865
Amortization of capital and other assets	675	641	21	1,337
Purchase of capital and other assets	748	646	-	1,394
Three months ended September 2009				
Sales	30,102	23,607	(3,147)	50,562
Operating income (loss)	(299)	5,359	(497)	4,563
Amortization of capital assets and other assets	795	524	22	1,341
Purchase of capital and other assets	574	798	7	1,379

	Net sales excluding Inter-Company				Inter-Company
	Canada	US	Other	Total	
Nine months ended September 2010					
Rubber Compounding Operations	44,953	70,695	2,887	118,535	5,232
AEP and Other	6,503	48,920	1,809	57,232	8,680
Total	51,456	119,615	4,696	175,767	13,912
Nine months ended September 2009					
Rubber Compounding Operations	34,608	61,975	422	97,005	1,665
AEP and Other	8,799	41,896	4,492	55,187	10,749
Total	43,407	103,871	4,914	152,192	12,414

	Rubber Compounding Operations	AEP & Other	Corporate and Inter-Company Eliminations	Total
Nine months ended September 2010				
Net Sales	123,767	65,912	(13,912)	175,767
Operating income (loss)	4,318	13,585	(1,796)	16,107
Amortization of capital assets and other assets	2,068	1,772	63	3,903
Purchase of capital and other assets	1,206	1,195	-	2,401
Assets employed				
Canada	60,538	40,134	17,334	118,006
US	19,007	6,600	-	25,607
Total	79,545	46,734	17,334	143,613
Nine months ended September 2009				
Net Sales	98,670	65,936	(12,414)	152,192
Operating income (loss)	(6,400)	11,983	(1,618)	3,965
Amortization of capital assets and other assets	2,519	1,601	64	4,184
Purchase of capital and other assets	1,846	1,924	12	3,782
Assets employed				
Canada	51,844	44,645	12,531	109,020
US	19,127	-	-	19,127
Total	70,971	44,645	12,531	128,147

AirBoss of America Corp.

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