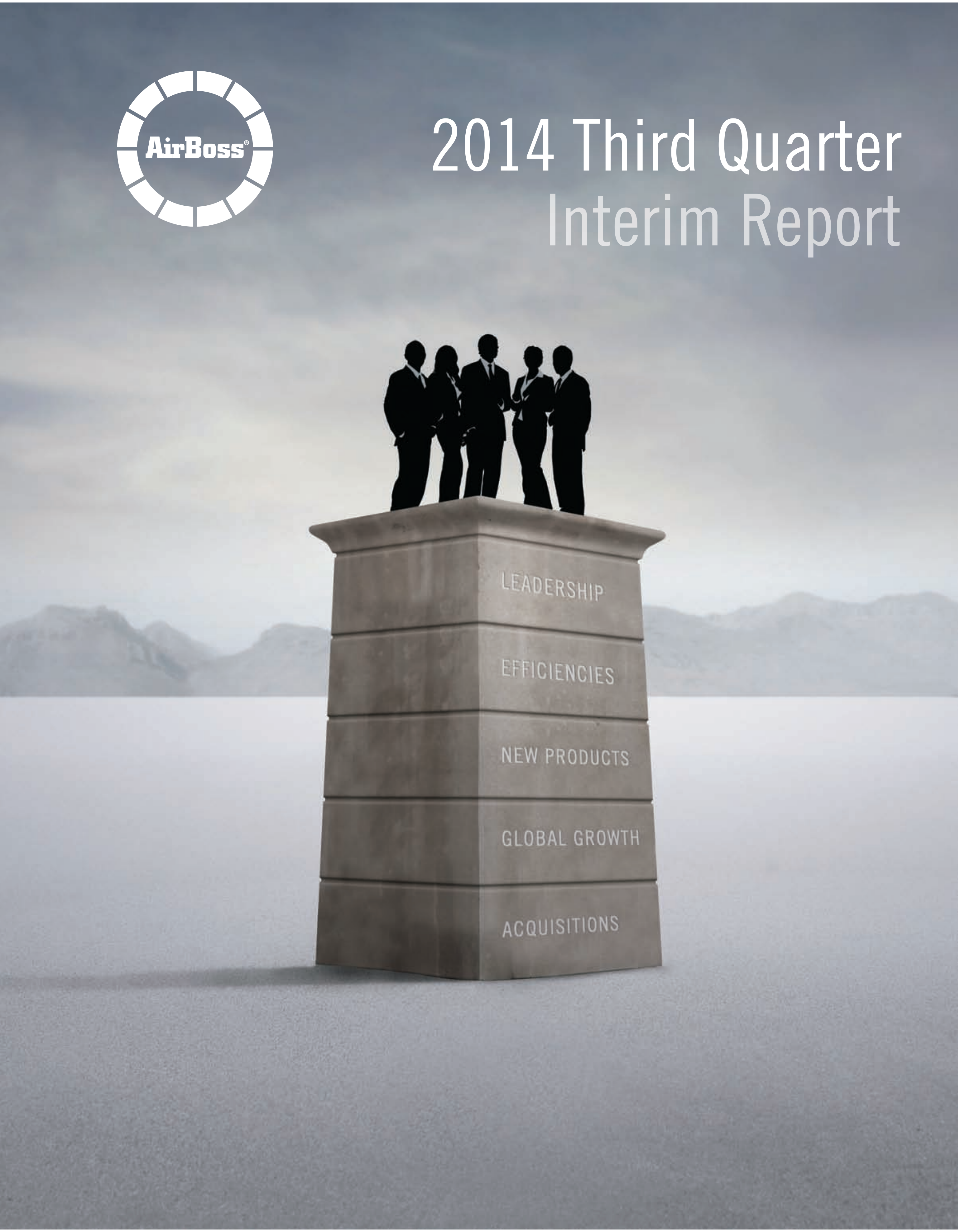
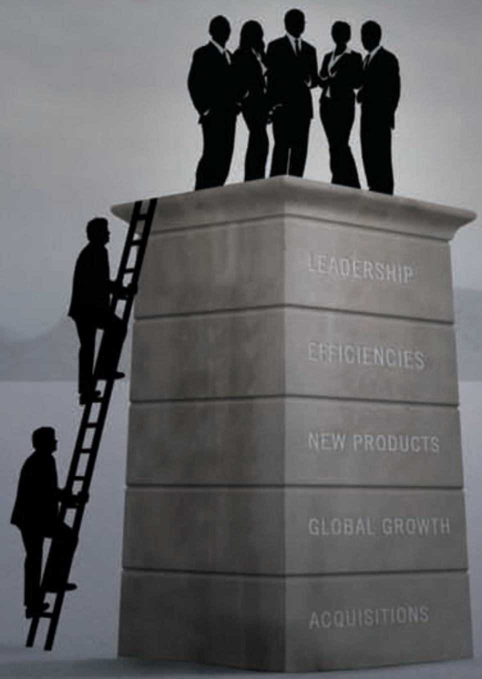
2014 Third Quarter Interim Report



AIRBOSS OF AMERICA

Corporate Profile



AirBoss is a group of complementary businesses using compounding technology and engineering expertise to create value for its customers.

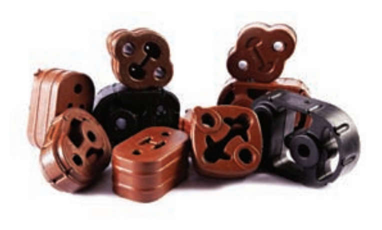
AirBoss Rubber Compounding is the second largest rubber compound manufacturer in North America. AirBoss Rubber Compounding has capacity to supply 250 million pounds of compound annually to a broad range of customers in the transportation, defense, and industrial markets in North America and Europe.

AirBoss Flexible Products Co. is a leading supplier of anti-vibration solutions to the North American automotive market. Specific product applications include vibration damping, spring improvement, noise prevention, shock absorption, and durability enhancement.

AirBoss-Defense is a world leader in the supply of life saving products for the military. Applications include CBRN protective hand and footwear, and low burden gas masks. AirBoss-Defense is the sole supplier of gas masks to Canada's DND.

AirBoss Industrial Products provides essential calandered, extruded and molded products to a variety of customers in North America. These rubber products are used in a broad range of applications including first response, recreation, and agriculture.

AirBoss is dedicated to providing excellent value to its customers by continuously delivering superior products and services. AirBoss is financially strong and able to support future growth opportunities. Through increased earnings, dividends and share price, AirBoss continues to provide excellent value for its shareholders.



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To Our Shareholders

2014 3rd Quarter versus 2013 3rd Quarter Highlights

- Net sales increased by 42.6%
- Gross margin improved from 11.8% to 15.7%
- EPS increased to US $0.17, an increase of 88.9%
- EBITDA increased by 99.6%

The third quarter of 2014 demonstrated the continued improvements that management's efforts are having on the business. Net sales of $74.2 million increased 42.6% over 2013 primarily by the increase from Automotive. Rubber Compounding had a positive quarter with volumes, expressed in pounds, increasing 13%. However, sales dollars were negatively impacted by declining rubber prices and an increase in tolling volumes relative to the prior year. Our Engineered Products business continues to face some challenges due largely to softness in defense spending. We remain focused on operational initiatives, such as production efficiencies and control over raw material purchasing, which contributed to our businesses' ability to deliver gross margin improvements over the prior year. EBITDA for the quarter was $7.8 million, an increase of 99.6% over the same period in 2013.

While volumes in traditional markets of our Rubber Compounding business remain challenged, predominantly in the conveyor belt segment and corresponding OTR tire retreading associated with the mining industry, these were more than offset by improvements in solid tire volumes, other mining and further penetration of the oil & gas segment. We do see signs that volumes are stabilizing for the remainder of the year with various opportunities that could result in improved volumes in the future.

There are some early signs that defense spending in North America is improving. The company recently announced an approximately $15 million order of its CBRN over-boots for the US Department of Defense. Production for these has commenced with the majority of these deliveries to occur in 2015. We anticipate some North American and international tenders to be released in the balance of 2014 and first half of 2015 that we expect to participate in which could result in improved performance in 2015. We continue to receive positive feedback and increased sales in overseas markets. We also have several new products, with significant design improvements, that are in various stages of development in both our defense and industrial products businesses.

Flexible Products has been an excellent addition to AirBoss' business, with sales in line with our expectations and margins ahead of plan. We feel there is more room to reap the benefits of the inherent synergies, strong automotive manufacturing and to take advantage of its growth opportunities.

To Our Shareholders

Outlook

At the end of 2013 we outlined four areas of focus to drive AirBoss' performance initiatives on both the cost and revenue side:

1. Operating Margin Improvement
2. Global Growth
3. Leadership
4. Acquisitions

The business is seeing the results of our focus and management is motivated and committed to executing these initiatives as we continue to aggressively pursue options to accelerate growth both organically and through additional strategic acquisitions. We are encouraged by the many opportunities we see before us.

P.G. Schoch
Chairman and CEO

Timothy Toppen
President & COO

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of AirBoss of America Corp. ("AirBoss" or the "Company") has been prepared as of November 5, 2014 and should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements and Notes for the three-month and nine-month periods ended September 30, 2014 and the MD&A for the year ended December 31, 2013. The Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The Audit Committee and Board of Directors have reviewed and approved the contents of this MD&A, the Financial Statements and the third quarter press release. All dollar amounts are shown in thousands of US dollars, except per share amounts, unless otherwise specified. Additional information regarding the Company, including its Annual Information Form, can be found on SEDAR at **www.sedar.com** and on the Company's website at **www.airbossofamerica.com**.

Certain statements contained or incorporated by reference herein, including those that express management's expectations or estimates of future developments or AirBoss' future performance, constitute "forward-looking statements" within the meaning of applicable securities laws, and can generally be identified by words such as "will", "may", "could", "expects", "believes", "anticipates", "forecasts", "plans", "intends" or similar expressions. These statements are not historical facts but instead represent management's expectations, estimates and projections regarding future events and performance.

Forward-looking statements are necessarily based upon a number of opinions, estimates and assumptions that, while considered reasonable by management at the time the statements are made, are inherently subject to significant business, economic and competitive risks, uncertainties and contingencies. AirBoss cautions that such forward-looking statements involve known and unknown contingencies, uncertainties and other risks that may cause AirBoss' actual financial results, performance or achievements to be materially different from its estimated future results, performance or achievements expressed or implied by those forward-looking statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements, including without limitation: impact of general economic conditions; its dependence on key customers; cyclical trends in the tire and automotive, construction, mining and retail industries; sufficient availability of raw materials at economical costs; weather conditions affecting raw materials, production and sales; AirBoss' ability to maintain existing customers or develop new customers in light of increased competition; changes in accounting policies and methods, including uncertainties associated with critical accounting assumptions and estimates; changes in the value of the Canadian dollar relative to the US dollar; changes in tax laws and potential litigation; ability to obtain financing on acceptable terms; environmental damage caused by it and non-compliance with environmental laws and regulations; potential product liability and warranty claims and equipment malfunction. This list is not exhaustive of the factors that may affect any of AirBoss' forward-looking statements.

All of the forward-looking information in this quarterly report is expressly qualified by these cautionary 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. Forward-looking information contained herein is made as of the date of this quarterly report and, whether as a result of new information, future events or otherwise, AirBoss disclaims any intent or obligation to update publicly these forward-looking statements except as required by applicable laws. Risks and uncertainties about AirBoss' business are more fully discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2013 Annual Report to Shareholders under the heading "Risk Factors".

Operational Highlights

Q3 2014 versus Q3 2013

- Net sales increased by 42.6%
- Gross margin improved from 11.8% to 15.7%
- EPS increased to US $0.17, an increase of 88.9%
- EBITDA increased by 99.6%

Selected Financial Information

In thousands of US dollars, except shares and per share amounts	Three months ended September 30 **2014**	2013	Nine months ended September 30 **2014**	2013
Financial results:				
Net sales	**$74,219**	$52,040	**$225,108**	$166,058
Net income	**3,861**	2,024	**10,122**	7,130
Net income per share				
– Basic	**0.17**	0.09	**0.44**	0.31
– Diluted	**0.17**	0.09	**0.44**	0.31
EBITDA (non-IFRS financial measure)	**7,833**	3,925	**21,960**	14,257
Net cash provided by (used in) operating activities	**2,786**	4,088	**(5,230)**	9,018
Dividends declared per share	**0.05**	0.05	**0.15**	0.15
Capital expenditures	**1,538**	1,048	**3,135**	3,980
Financial position:		**September 30, 2014**		December 31, 2013
Total assets		**$178,599**		$185,772
Term loan and other debt		**52,651**		57,113
Shareholders' equity		**87,852**		81,140
Outstanding shares		***22,876,731**		22,748,116

* 22,876,731 at November 5, 2014

Non-IFRS Financial Measure

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

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

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

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

A reconciliation of this measure is presented below:

In thousands of US dollars	Three months ended September 30 **2014**	2013	Nine months ended September 30 **2014**	2013
EBITDA:				
Net Income	**$3,861**	$2,024	**$10,122**	$7,130
Finance costs	**510**	212	**1,715**	606
Depreciation and amortization of intangible assets	**2,206**	1,467	**6,526**	4,438
Income tax expense	**1,256**	222	**3,597**	2,083
EBITDA	**$7,833**	$3,925	**$21,960**	$14,257

RESULTS OF OPERATIONS – 2014 compared to 2013

NET SALES

Net Sales increased by 42.6% in the third quarter of 2014 compared to 2013 primarily from the positive impact of Flexible, partially offset by declines in both Rubber Compounding and Engineered Products.

Three months ended September 30 *In thousands of US dollars*		Rubber Compounding[1]	AEP	Automotive	Total
Net Sales	**2014**	**$32,401**	**$11,833**	**$29,985**	**$74,219**
	2013	37,540	14,500	N/A	52,040
Increase (decrease) $		(5,139)	(2,667)	29,985	22,179
Increase (decrease) %		(13.7)	(18.4)	N/A	42.6

Nine months ended September 30 *In thousands of US dollars*		Rubber Compounding[1]	AEP	Automotive	Total
Net Sales	**2014**	**$99,861**	**$32,581**	**$92,666**	**$225,108**
	2013	121,880	44,178	N/A	166,058
Increase (decrease) $		(22,019)	(11,597)	92,666	59,050
Increase (decrease) %		(18.1)	(26.3)	N/A	35.6

[1]2013 Comparative figures include sales to Flexible Products prior to acquisition. For purposes of comparative analysis below, this has been removed.

Rubber Compounding

For purposes of comparative analysis below, Rubber Compounding sales to Flexible prior to the acquisition have been removed for consistency with the elimination of these intercompany sales post acquisition. After eliminating intercompany sales, sales volume, expressed in pounds shipped, increased by 13.0% for the three-month period ended September 30, 2014 and 1.9% on a year-to-date basis, as compared to the same periods in 2013. Sales dollars for the quarter decreased by $1,119 and $10,386 on a year-to-date basis. Raw material prices were down 19.6% for the third quarter and 14.1% on a year-to-date basis as compared to the same periods in 2013, resulting in a corresponding decrease in sales dollars as these savings were passed on to customers.

Tolling volumes increased by 95% for the third quarter and 56% on a year-to-date basis as compared to the same periods in 2013; tolling rates for the quarter were down 14.6% and for the year were down 4.5%. Volumes for the non-tolling portion of the business were consistent with the same quarter last year. On a year-to-date basis non-tolling volume continues to be lower than 2013 with declines, particularly in the conveyor belt, OTR retreading and defense segments, which were partially offset by improved volume in the mining and oil & gas segment in the third quarter.

Sales volumes are expected to remain consistent through the remainder of the year.

AirBoss Engineered Products

AirBoss Engineered Products ("AEP") sales decreased by $2,667 in the third quarter as compared to the same period in 2013; of this a net decrease of $2,159 was related to lower volumes and a net decrease of $508 from pricing and product mix. On a year-to-date basis, sales decreased by $11,597 compared to the same period in 2013; of this a net decrease of $10,392 was related to lower volumes and a net decrease of $1,205 from pricing and product mix.

In the defense business, sales of CBRN overshoes declined $2,900 in the quarter as compared to the same period in 2013, primarily as a result of the expiration of contracts with the Department of Defense ("DoD"), offset by an increase of $99 in CBRN gloves and $688 in other products.

On a year-to-date basis, sales of CBRN overshoes and gloves declined $8,412 and $1,408 respectively as compared to the same period in 2013, and were offset by an increase of $1,658 in other products. Sales in new geographic markets are gaining traction and there is an opportunity to increase these CBRN product sales in 2014. In the longer term there is opportunity for sales growth from new products currently under development, as well as from new first responder markets.

Industrial Products sales decreased by 7.7%, $553 in the third quarter as compared to the same period in 2013, primarily as a result of decreases in demand for tire retreading, fire boots and declines in the mining sector. As well, the shift by a major customer to supply its raw material requirements in a partially mixed form to AEP for final processing continues to impact the business.

RESULTS OF OPERATIONS – 2014 compared to 2013 (continued)

On a year-to-date basis, Industrial sales decreased by 14.5%, $3,433 as compared to the same period in 2013, primarily as a result of decreases in demand for tire retreading, military tires and fire boots. For the remainder of the year, Industrial Products has a number of new product opportunities it is pursuing and demand in its traditional markets is improving.

Automotive

AirBoss Flexible Products ("AFP" or "Flexible") had quarterly sales of $29,985, year-to-date $92,666, driven by the strength in the US automotive manufacturing sector. AFP is expected to continue to perform at similar levels over the remainder of the year.

GROSS MARGIN

Consolidated gross margin for the quarter ended September 30, 2014 was $11,630 (2013: $6,138), an increase of $5,492 from 2013. This was primarily attributable to the impact of AFP, lower conversion costs in Rubber Compounding, continued focus on control of raw material purchases partially offset by the impact of lower volumes for Rubber Compounding and Engineered Products.

Three months ended September 30 *In thousands of US dollars*		Rubber Compounding	AEP	Automotive	Total
Gross Margin	**2014**	**$4,502**	**$2,831**	**$4,297**	**$11,630**
	2013	2,818	3,320	N/A	6,138
Increase (decrease) $		1,684	(489)	4,297	5,492
% of net sales	**2014**	**13.9**	**23.9**	**14.3**	**15.7**
	2013	7.5	22.9	N/A	11.8

Nine months ended September 30 *In thousands of US dollars*		Rubber Compounding	AEP	Automotive	Total
Gross Margin	**2014**	**$12,342**	**$7,117**	**$14,106**	**$33,565**
	2013	10,983	9,743	N/A	20,726
Increase (decrease) $		1,359	(2,626)	14,106	12,839
% of net sales	**2014**	**12.4**	**21.8**	**15.2**	**14.9**
	2013	9.0	22.1	N/A	12.5

Rubber Compounding

Gross margin for Rubber Compounding increased by $1,684 in the third quarter and $1,359 on a year-to-date basis as compared to the same periods in 2013, primarily as a result of lower conversion costs. In both the third quarter and on a year-to-date basis the gross margin percentage increased as compared to the same periods in 2013 through continued focus on productivity initiatives and control over raw material purchasing, as well as a favourable product mix.

AirBoss Engineered Products

Gross margin for AirBoss Engineered Products decreased by $489 in the third quarter compared to 2013 primarily as a result of lower volume. The gross margin percentage increased primarily due to a change in product mix in both industrial products and defense products and production efficiencies which have been implemented. Gross margin on a year-to-date basis decreased $2,626 compared to the same period in 2013.

Automotive

Gross margin for Automotive was $4,297 for the third quarter and $14,106 on a year-to-date basis. Gross margin for Q3 was 14.3%, year-to-date was 15.2%. Differences in gross margin are the result of product mix.

RESULTS OF OPERATIONS – 2014 compared to 2013 (continued)

OPERATING EXPENSES

Consolidated operating expenses increased for the quarter by $2,323, and year-to-date $7,224, primarily due to expenses at Flexible.

Three months ended September 30 *In thousands of US dollars*		Rubber Compounding	AEP	Automotive	Unallocated Corporate Costs	Total
Operating Expenses	**2014**	**$1,682**	**$1,660**	**$1,988**	**$673**	**$6,003**
	2013	1,540	1,341	N/A	799	3,680
Increase (decrease) $		142	319	1,988	(126)	2,323
% of net sales	**2014**	**5.2**	**14.0**	**6.6**	**N/A**	**8.1**
	2013	4.1	9.2	N/A	N/A	7.1

Nine months ended September 30 *In thousands of US dollars*		Rubber Compounding	AEP	Automotive	Unallocated Corporate Costs	Total
Operating Expenses	**2014**	**$4,678**	**$4,687**	**$6,047**	**$2,719**	**$18,131**
	2013	5,461	4,264	N/A	1,182	10,907
Increase (decrease) $		(783)	423	6,047	1,537	7,224
% of net sales	**2014**	**4.7**	**14.4**	**6.5**	**N/A**	**8.1**
	2013	4.5	9.7	N/A	N/A	6.6

Rubber Compounding

For the three-month period, Rubber Compounding expenses increased by $142. During the quarter, bad debts increased by $99, reduced expense recoveries from R&D subsidies of $60 and FX loss of $93. These were partially offset by the reduced professional fees of $54 and other general expenses of $56.

For the nine-month period ended September 30, 2014, expenses decreased by $783 mainly due to decreases in compensation by $212, corporate charge by $71, professional fees by $216, equipment and computer expenses by $105, travel expenses by $45 and foreign exchange loss of $40. Other income increased by $128 reflecting the gain on the pension settlement. These were partially offset by an increase in other expenses of $34.

AirBoss Engineered Products

For the quarter and nine-month periods ended September 30, 2014, AEP's expenses increased by $319 and $423 respectively.

During the quarter, the increases are primarily related to supporting sales and marketing initiatives of $26, increase in foreign exchange losses of $24 and decrease in administrative expenses of $6. In this quarter, research and development costs increased by $278 net of government grants received.

During the nine-month period ended September 30, 2014, AEP selling and marketing initiatives increased by $167, increase in foreign exchange losses of $127 and decrease in administrative expenses of $59. During this period, research and development costs increased by $228 net of government grants received.

Automotive

For the quarter and nine-month periods ended September 30, 2014, Automotive's operating expenses were $1,988 and $6,047 respectively and largely in line with expectations. Included in this, AFP incurred year-to-date $242 in recruitment and other related employee expenses, $122 of acquisition related expenses, and $1,200 in amortization expense related to customer relationships.

Unallocated Corporate Costs

Notable changes in unallocated corporate costs for the third quarter compared to last year were as follows:

- Higher compensation including stock appreciation rights and restricted stock units $886
- Higher professional fees $66
- Gain on pension settlement of $128 and foreign exchange gain of $798 this quarter compared with foreign exchange loss of $97 from previous year.

Unallocated corporate costs for the nine-month period increased $1,537. General and administrative expenses increased by $2,308 due to additional employee costs of $1,768 (net of share options forfeited of $123) related to the stock appreciation rights plan and restricted stock units, increased salary and payroll costs of $312, professional fees of $194, and meals and travel expenses of $16. These were partially offset by increases in corporate charges of $84, foreign exchange gains of $951, and gain on pension settlement of $128.

RESULTS OF OPERATIONS – 2014 compared to 2013 (continued)

FINANCE COST

Three months ended September 30 *In thousands of US dollars*		Rubber Compounding	AEP	Automotive	Corporate Costs	Total
Finance cost	**2014**	**$708**	**$12**	**$-**	**$(210)**	**$510**
	2013	96	58	N/A	58	212
Increase (decrease) $		612	(46)	-	(268)	298
% of net sales	**2014**	**2.2**	**0.1**	**-**	**N/A**	**0.7**
	2013	0.3	0.4	N/A	N/A	0.4

Nine months ended September 30 *In thousands of US dollars*		Rubber Compounding	AEP	Automotive	Corporate Costs	Total
Finance cost	**2014**	**$2,063**	**$10**	**$-**	**$(358)**	**$1,715**
	2013	320	205	N/A	81	606
Increase (decrease) $		1,743	(195)	-	(439)	1,109
% of net sales	**2014**	**2.1**	**-**	**-**	**N/A**	**0.8**
	2013	0.3	0.5	N/A	N/A	0.4

Finance costs in 2014 were $510 for the quarter (2013: $212) and year-to-date $1,715 (2013: $606) and were impacted by higher borrowing levels as a result of the acquisition of Flexible Products.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $1,256 (2013: $222) and $3,597 year-to-date (2013: $2,083) or an effective income tax rate for the quarter of 24.5% (9.9% in 2013) and 26.2% year-to-date (22.6% in 2013). The Company conducts business in the US and in Canada. Each jurisdiction is subject to different tax rates and the Company's effective tax rate varies quarter to quarter depending on the mix and volume of business in each jurisdiction, as well as the impact of incentives and non-tax-deductible expenses. The increase in the year-to-date effective tax rate is driven by higher US income from the Automotive sector.

NET INCOME AND EARNINGS PER SHARE

Net income in 2014 amounted to $3,861 and $10,122 for the quarter and year-to-date compared to $2,024 and $7,130 in 2013 primarily attributable to the positive impact by the Flexible Products acquisition. The basic and fully diluted net earnings per share in the third quarter and year-to-date were $0.17 and $0.44 (2013- $0.09 and $0.31) and $0.17 and $0.44 (2013- $0.09 and $0.31) based on basic and fully diluted shares outstanding of 22,846,685 (2013- 22,680,962) and 23,062,908 (2013- 22,698,905) respectively.

QUARTERLY INFORMATION

In thousands of US dollars

Quarter Ended	Net Sales	Net Income (loss)	Net Income (loss) per share Basic	Diluted
September 30, 2014	**$74,219**	**$3,861**	**$0.17**	**$0.17**
June 30, 2014	79,473	3,780	0.17	0.16
March 31, 2014	71,416	2,481	0.11	0.11
2013				
December 31, 2013	70,267	(779)	(0.03)	(0.03)
September 30, 2013	52,040	2,024	0.09	0.09
June 30, 2013	59,659	3,060	0.14	0.13
March 31, 2013	54,359	2,046	0.09	0.09
2012				
December 31, 2012	54,114	1,755	0.08	0.08

Items impacting comparability of quarters

- The fourth quarter of 2013 was impacted by transaction costs incurred in the acquisition of Flexible Products Co. ("Flexible"), increased stock compensation and offset by the contribution to earnings of Flexible.
- All quarters since the fourth quarter ended December 31, 2013 were impacted by the business acquistion of Flexible, impacting net sales and profit.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The first nine months of 2014 were positively impacted by the Flexible Products acquisition. Revenue increased by $59 million over 2013. The strong automotive performance helped offset the weakness in the mining industry related to Rubber Compounding and the overall decline in the Defense business.

The Company expects to fund its 2014 operating cash requirements, including required working capital investments, capital expenditures and scheduled debt repayments from cash on hand, cash flow from operations and committed borrowing capacity. The operating facility provides financing up to USD $40 million (2013: CAD $35 million). $1.8 million was drawn against this facility at September 30, 2014.

In the nine-month period ended September 30, 2014, $5,230 of cash was used in operations, (2013: $9,018 generated) $3,706 (2013: $3,980) was used for investing activities and $7,533 (2013: $4,228) was used in financing activities. Cash and cash equivalents decreased by $16,469 from $16,904 to a cash balance of $483 adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

The factors contributing to the use of cash in operating activities compared to 2013 include:

- Higher income of $2,992 primarily related to Flexible Products partially offset by lower income in Rubber Compounding and AEP;
- Higher finance costs of $1,109 as a result of additional loans after acquiring Flexible;
- Higher tax expense of $1,514;
- Net increase in unrealized foreign exchange gains of $311;
- Cash used for working capital was $23,823 (2013: $1,850) for the nine-months ended September 30, 2014.

Accounts Receivable increased by $6,576 of which, $1,643 is due to an increase in Automotive products consistent with increased sales, $6,009 is due to an increase in Rubber Compounding due to extended credit terms with certain customers and is partially offset by the decrease in Engineered Products brought about by lower sales. 89% of outstanding receivables are within credit terms compared to 50% at December 31, 2013, Rubber Compounding seeing the biggest improvement.

Inventory at Rubber Compounding has increased by $97 due to timing of purchase deliveries, pounds on hand are consistent with the first nine months of 2013. AEP had built up inventory for shipments in the fourth quarter of 2014, accounting for their increase in inventory of $1,976. Inventory of Automotive has increased $2,864 from December 31, 2013 to September 30, 2014 reflecting the increase in volume of sales.

Prepaid expenses increased $878 reflecting higher corporate prepayments at September 30, 2014 compared to year-end.

Accounts payable decreased $11,432 due to timing of payments.

Other assets increased $571 as a result of the Company's investment in the form of a convertible promissory note for $550 plus interest at 8% in a company for which the President is the Chairman.

Income tax paid was $2,294, $708 higher compared to 2013 from the timing of required remittances and utilization of taxable losses in certain jurisdictions.

The Company paid interest of $1,681 in the first nine months of 2014.

Investing Activities

Property, Plant and Equipment

In 2014, Rubber Compounding invested $88 (2013: $1,384) to support growth and sustaining capital initiatives in its North Carolina facility and $40 (2013: $36) towards health and safety. $83 (2013: $703) was invested to support growth in its Kitchener facility, $21 (2013: $24) to support health and safety, $131 to support software upgrade initiatives and $557 (2013: $526) to replace manufacturing equipment. There were no cost saving initiatives in the first nine months of 2014 (2013: $87).

AEP invested $20 (2013: $43) to support health and safety, $735 (2013: $611) to support growth and upgrade equipment and $75 for cost saving initiatives (2013: $nil) and $35 (2013: $nil) to support product research. AirBoss-Defense invested $140 (2013: $47) to support growth and replace equipment. There were no additional R&D investments in its Bromont facility (2013: $206).

Automotive invested $872 in property, plant and equipment during the first nine months of 2014.

Intangible assets

In 2014, the Company invested $335 (2013: $299) in existing software for over-all improvements to reporting, purchasing and costing systems.

Financing activities

At September 30, 2014, AirBoss drew U.S. $1.8 million against its operating facility. (September 30, 2013: no draws).

During the nine-month period, the required principal repayments of $4,065 (2013: $488) were made pursuant to the loan agreement. The unused line of credit at September 30, 2014 was USD $38.2 million (2013: CAD $35 million).

The Company expects to fund its 2014 operating cash requirements, including required working capital investments, capital expenditures and scheduled debt repayments from cash on hand, cash flow from operations and committed borrowing capacity.

The Company paid dividends of $1,070 during the quarter (2013: $1,075) and $3,169 year-to-date (2013: $3,316). No shares were purchased for cancellation under the Normal Course Issuer Bid during the first nine months of 2014 and all of fiscal year 2013.

Government assistance

During the first nine months of 2014, AEP recognized grants of $1,244 to support certain initiatives (2013: $1,455) which were offset against expenses.

During the first nine months of 2014, Rubber Compounding recognized $nil (2013: $86) to support certain initiatives which were offset against expenses.

Scientific research and investment tax credits of $430 were recognized in 2014 (2013: $559). R&D costs were adjusted accordingly. In addition, $39 (2013: $84) was recognized as a reduction to capital assets in respect of provincial tax credits.

Dividends

A quarterly dividend of $0.05 per share was declared on March 19, 2014 and paid April 17, 2014; $0.05 per share quarterly dividend was declared in the second quarter and paid July 17, 2014; and $0.05 per share quarterly dividend was declared in the third quarter and paid October 16, 2014. Total annual dividends declared during 2013 were $0.20 per common share.

Outstanding shares

As at November 5, 2014 the Company had 22,876,731 common shares and 1,008,000 share options outstanding.

TRANSACTIONS WITH RELATED PARTIES

Included in the operating lease commitments was a rental agreement for corporate office space between the Company and a company controlled by the Chairman of the Company. The monthly lease rate approximates fair market rental value. During the quarter, the Company paid rent for the corporate office of $42 (2013: $39), year-to-date $124 (2013: $128).

During the quarter, the Company paid fees for the use of a facility in South Carolina of approximately $5 (2013: $7), year-to-date $16 (2013: $17) to a company in which the Chairman is an officer.

In addition, AirBoss Flexible Products Co. paid rent to a company controlled by an employee of the Company to utilize its facilities. Rent paid to this related party for the quarter was $263 (year-to-date $788). The lease provides for monthly payments equivalent to an annual rental of $1,050 and expires in 2019.

During the second quarter of 2014, the Company invested $550 in the form of a convertible promissory note in a company for which the President is the Chairman. This note can be convertible to an equity interest under the following conditions: (1) the company has completed "qualified financing" raising $1 million in gross proceeds (excluding the company's loan); (2) if no "qualified financing" takes place prior to the maturity date, the Company has the option to convert into common stock within 60 days prior to the maturity date of the note. The note bears interest at 8% per annum. Unless converted or prepaid earlier, principal and accrued interest on the note will be due on April 11, 2016.

During the quarter, interest income on this convertible promissory note of $11 (year-to-date $21), is recorded on the statement of financial position included in other assets and recorded on the statement of profit as interest income.

The convertible promissory note is accounted for as a loan receivable with separation of the conversion options that represent embedded derivatives. The loan is initially recognized at its fair value by discounting future cash flows at market interest rate for similar financial debt without the conversion options and is subsequently measured at amortized cost. The embedded derivatives are accounted for at fair value, which is currently considered nominal.

FINANCIAL INSTRUMENTS

Foreign exchange hedge

There were no forward contracts outstanding at September 30, 2014 and December 31, 2013.

Interest rate swap

During 2014, the Company entered into an interest rate swap agreement for a notional amount of $22.5 million. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 0.98%. The swap agreement matures on February 27, 2017.

During the third quarter of 2014, the net interest expense of the swap agreement was $53 and $47 was paid; year-to-date $117 and $103 respectively.

For the period ended September 30, 2014, the fair value of this agreement, representing a loss of $49, is recorded on the statement of financial position included in loans and borrowings and recorded on the statement of profit as finance costs.

The Company has entered into this interest rate swap agreement in order to fix the interest rate on a portion of its term loan and not intended for trading or speculation purposes.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies are provided in Note 3 to the annual consolidated financial statements for the year ended December 31, 2013 and have been applied consistently to all periods presented in the condensed consolidated financial statements.

In the first half of 2014, the following new interpretation has been applied in preparing these condensed consolidated financial statements.

IFRIC 21 clarifies what is the obligating event that gives rise to the recognition of a liability to pay a levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is applied retrospectively. The adoption of this standard did not have a material effect on the Company's financial results.

The accounting policies have been applied consistently by entities within the group.

New standard and interpretation not yet adopted

In July 2014 the IASB finalized "IFRS 9", "Financial Instruments". The standard is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The new standard includes revised guidance on the classification and measurement of financial assets and liabilities, and hedge accounting. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"). The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent quarter, there have been no changes in the Company's policies and procedures and other processes that comprise its internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Management has not yet assessed Flexible's internal controls over financial reporting.

OUTLOOK

At the end of 2013 we outlined four areas of focus to drive AirBoss' performance initiatives on both the cost and revenue side:

1. Operating Margin Improvement
2. Global Growth
3. Leadership
4. Acquisitions

The business is seeing the results of our focus and management is motivated and committed to executing these initiatives as we continue to aggressively pursue options to accelerate growth both organically and through additional strategic acquisitions. We are encouraged by the many opportunities we see before us.

November 5, 2014

P.Gren Schoch
Chairman and Chief Executive Officer

Wendy Ford
Chief Financial Officer

Notice of Disclosure of Non-Auditor Review of Interim Financial Statements

For the three-month and nine-month periods ended September 30, 2014 and 2013.

Pursuant to Ontario Securities Legislations' 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 condensed consolidated financial statements of the Company for the interim periods ended September 30, 2014 and 2013 have been prepared in accordance with IAS 34 Interim Financial reporting and are the responsibility of the Company's management.

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

Dated this November 5, 2014

Condensed Consolidated Statement of Financial Position

Unaudited

As at: *In thousands of US dollars*	*Note*	**September 30, 2014**	December 31, 2013
ASSETS			
Current assets			
Cash and cash equivalents		**483**	16,904
Trade and other receivables, including derivatives	*5*	**49,076**	42,633
Prepaid expenses		**3,135**	2,277
Inventories	*6*	**38,857**	33,920
Total current assets		**91,551**	95,734
Non-current assets			
Property, plant and equipment		**53,302**	55,418
Intangible assets		**32,712**	33,987
Other assets	*7*	**1,034**	468
Deferred income tax assets		**-**	165
Total non-current assets		**87,048**	90,038
Total assets		**178,599**	185,772
LIABILITIES			
Current liabilities			
Loans and borrowings	*8,9*	**5,445**	5,440
Trade and other payables, including derivatives		**29,267**	39,789
Employee benefits	*15*	**1,287**	2,330
Current income taxes payable		**240**	255
Total current liabilities		**36,239**	47,814
Non-current liabilities			
Loans and borrowings	*8*	**47,206**	51,673
Employee benefits	*15*	**455**	489
Provisions		**2,446**	898
Deferred income tax liabilities		**4,401**	3,758
Total non-current liabilities		**54,508**	56,818
Total liabilities		**90,747**	104,632
EQUITY			
Share capital	*11*	**37,681**	37,325
Contributed surplus	*11*	**1,450**	1,735
Retained earnings		**48,721**	42,080
Total equity		**87,852**	81,140
Total liabilities and equity		**178,599**	185,772

The notes on pages 18 to 25 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Profit
Unaudited

For the three and nine month periods ended September 30 *In thousands of US dollars*	*Note*	Three-month **2014**	Three-month 2013	Nine-month **2014**	Nine-month 2013
Revenue		**74,219**	52,040	**225,108**	166,058
Cost of sales		**(62,589)**	(45,902)	**(191,543)**	(145,332)
Gross profit		**11,630**	6,138	**33,565**	20,726
General and administrative expenses		**(4,970)**	(2,398)	**(14,253)**	(7,417)
Selling and marketing expenses		**(1,201)**	(911)	**(3,748)**	(2,911)
Research and development expenses	*14*	**(624)**	(284)	**(1,327)**	(1,115)
Other income (expense)		**792**	(87)	**1,197**	536
Operating Expenses		**(6,003)**	(3,680)	**(18,131)**	(10,907)
Results from operating activities		**5,627**	2,458	**15,434**	9,819
Finance costs	*8,15*	**(510)**	(212)	**(1,715)**	(606)
Profit before income tax		**5,117**	2,246	**13,719**	9,213
Income tax expense	*13*	**(1,256)**	(222)	**(3,597)**	(2,083)
Profit for the period		**3,861**	2,024	**10,122**	7,130
Earnings per share					
Basic	*12*	**0.17**	0.09	**0.44**	0.31
Diluted	*12*	**0.17**	0.09	**0.44**	0.31

Consolidated Statement of Comprehensive Income
Unaudited

For the three and nine month periods ended September 30 *In thousands of US dollars*	*Note*	Three-month **2014**	Three-month 2013	Nine-month **2014**	Nine-month 2013
Profit for the period		**3,861**	2,024	**10,122**	7,130
Other comprehensive income					
Items that will never be reclassified to profit or loss					
Defined benefit plan actuarial loss	*15*	**(348)**	-	**(348)**	-
Other comprehensive income for the period, net of income tax of $116 (2013: $nil)		**(348)**	-	**(348)**	-
Total comprehensive income for the period		**3,513**	2,024	**9,774**	7,130

The notes on pages 18 to 25 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity

Unaudited

In thousands of US dollars	Attributable to equity holders of the Company Share Capital	Contributed Surplus	Retained Earnings	Total
Balance at January 1, 2013	37,090	1,925	39,972	78,987
Profit and total comprehensive income for the period	-	-	7,130	7,130
Contributions by and distributions to owners				
Stock options expensed	-	233	-	233
Share options exercised	217	(641)	-	(424)
Dividends to equity holders	-	-	(3,291)	(3,291)
Total contributions by and distributions to owner	217	(408)	(3,291)	(3,482)
Balance at September 30, 2013	37,307	1,517	43,811	82,635
Balance at January 1, 2014	37,325	1,735	42,080	81,140
Profit for the period	-	-	10,122	10,122
Other comprehensive income				
Defined benefit plan actuarial loss net of tax of $116	-	-	(348)	(348)
Total comprehensive income for the period	-	-	9,774	9,774
Contributions by and distributions to owners				
Stock options expensed	-	493	-	493
Share options exercised	356	(655)	-	(299)
Share options forfeited	-	(123)	-	(123)
Dividends to equity holders	-	-	(3,133)	(3,133)
Total contributions by and distributions to owner	356	(285)	(3,133)	(3,062)
Balance at September 30, 2014	37,681	1,450	48,721	87,852

The notes on pages 18 to 25 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

Unaudited

For the nine-month period ended September 30 *In thousands of US dollars*	*Note*	**2014**	2013
Cash flows used in operating activities			
Profit for the period		**10,122**	7,130
Adjustments for:			
Depreciation		**4,916**	4,111
Amortization of intangible assets		**1,610**	304
Loss on disposal of property, plant and equipment		**-**	23
Gain on pension settlement	*15*	**(128)**	-
Finance costs	*8*	**1,715**	606
Change in fair value of interest swap		**49**	-
Unrealized foreign exchange (gains)/losses		**(818)**	(507)
Share-based payment expense		**2,124**	233
Share options forfeited		**(123)**	-
SRED tax credits		**(468)**	(643)
Current income tax expense	*13*	**2,672**	3,399
Deferred income tax expense	*13*	**925**	(1,316)
Litigation settlement		**-**	(389)
Post-retirement benefits expense	*15*	**(28)**	(32)
		22,568	12,919
Change in inventories		**(4,937)**	3,235
Change in trade and other receivables		**(6,576)**	(2,414)
Change in prepayments		**(878)**	(792)
Change in trade and other payables		**(11,432)**	(1,879)
Net change in non-cash working capital balances		**(23,823)**	(1,850)
Interest paid		**(1,681)**	(465)
Income tax paid		**(2,294)**	(1,586)
Net cash provided by (used in) operating activities		**(5,230)**	9,018
Cash flows used in investing activities			
Acquisition of property, plant and equipment		**(2,800)**	(3,681)
Acquisition of intangible assets		**(335)**	(299)
Acquisition of other investments	*17*	**(571)**	-
Net cash used in investing activities		**(3,706)**	(3,980)
Cash flows used in financing activities			
Repayment of borrowings		**(4,065)**	(488)
Proceeds from exercise of share options		**-**	146
Tax paid on exercise of share options		**(299)**	(570)
Dividends paid	*11*	**(3,169)**	(3,316)
Net cash used in financing activities		**(7,533)**	(4,228)
Net decrease in cash and cash equivalents		**(16,469)**	810
Cash and cash equivalents at January 1		**16,904**	1,247
Effect of exchange rate fluctuations on cash held		**48**	(72)
Cash and cash equivalent at September 30		**483**	1,985

The notes on pages 18 to 25 are an integral part of these condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

For the three-month and nine-month periods ended September 30, 2014 and 2013
(Amounts in thousands of US dollars, except per share amounts, unless otherwise specified)

NOTE 1 REPORTING ENTITY

AirBoss of America Corp. ("the Company") is a public company listed on the Toronto Stock Exchange, incorporated and domiciled in Canada. The address of the Company's registered office is 16441 Yonge Street, Newmarket, Ontario, Canada. The condensed consolidated financial statements of the Company as at and for the three-month and nine-month periods ended September 30, 2014 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group has operations in Canada and the US and primarily is involved in the manufacture of high quality rubber-based products to resource, military, automotive and industrial markets (see Note 16).

NOTE 2 BASIS OF PREPARATION

Statement of compliance

The condensed consolidated interim financial statements should be read in conjunction with the Company's 2013 audited annual consolidated financial statements and accompanying notes.

The condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 5, 2014.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies are provided in Note 3 to the annual consolidated financial statements for the year ended December 31, 2013 and have been applied consistently to all periods presented in these condensed consolidated financial statements.

In the first nine months of 2014, the following new interpretation has been applied in preparing these condensed consolidated financial statements.

IFRIC 21 clarifies what is the obligating event that gives rise to the recognition of a liability to pay a levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is applied retrospectively. The adoption of this interpretation did not have a material effect on the Company's financial results.

The accounting policies have been applied consistently by entities within the group.

New standard and interpretation not yet adopted

In July 2014 the IASB finalized "IFRS 9", "Financial Instruments". The standard is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The new standard includes revised guidance on the classification and measurement of financial assets and liabilities, and hedge accounting. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"). The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

NOTE 4 BUSINESS ACQUISITION

On October 18, 2013, the Company acquired all the shares of Flexible-Products Co. ("Flexible"), a privately-owned U.S. company that is a leading supplier of innovative and cost-effective anti-vibration solutions to the North American automotive market.

The acquisition of Flexible by the Company is accounted for using the acquisition method of accounting, whereby Flexible's assets and liabilities are revalued to their fair value and any excess of the purchase price is recognized as goodwill. AirBoss' assets and liabilities are not revalued.

Acquisition-related costs

During the third quarter and year-to-date, the Company incurred additional acquisition-related costs of $nil and $122 respectively on legal fees and due diligence costs. These costs have been included in "administrative expenses" and expensed in 2014.

Identifiable assets acquired and liabilities assumed

The following table summarizes the recognized amounts of identifiable assets acquired and liabilities assumed at the acquisition date.

In thousands of US dollars	
Consideration:	
Cash	
Total Consideration:	57,856
Fair value of assets acquired:	
Cash	3,277
Accounts receivable	20,722
Inventory	9,134
Prepaid expenses	697
Property and equipment	12,303
Customer relationships	16,000
Investment	313
Total Assets	62,446
Fair value of liabilities assumed:	
Accounts payable and accrued liabilities	14,655
Total liabilities	14,655
Net assets acquired	47,791
Excess of purchase price over fair value of identifiable assets acquired (goodwill)	10,065

NOTE 5 TRADE AND OTHER RECEIVABLES

In thousands of US dollars	**September 30, 2014**	December 31, 2013
Trade receivables	**48,942**	42,068
Less: allowance for doubtful accounts	**(56)**	(181)
	48,886	41,887
Other receivables	**190**	746
	49,076	42,633

Impairment losses

The aging of trade receivables at the reporting date was:

	September 30, 2014		December 31, 2013	
In thousands of US dollars	**Gross**	**Impairment**	Gross	Impairment
Within terms	**43,400**	**-**	21,097	-
Past due 0-30 days	**3,941**	**-**	17,115	-
Past due 31-120 days	**1,601**	**(56)**	3,856	(181)
	48,942	**(56)**	42,068	(181)

The continuity of the allowance for doubtful accounts was:

In thousands of US dollars	**September 30, 2014**	December 31, 2013
Balance at January 1	**(181)**	(99)
Impairment loss recognized	**(129)**	(287)
Collected	**20**	186
Revise estimate/write-off	**234**	19
Balance	**(56)**	(181)

NOTE 6 INVENTORIES

In thousands of US dollars	**September 30, 2014**	December 31, 2013
Raw materials and consumables	**25,256**	21,149
Work in progress	**3,012**	2,550
Finished goods	**8,504**	7,564
Inventory in transit	**2,128**	2,326
Other inventory	**1,191**	1,433
	40,091	35,022
Provisions	**(1,234)**	(1,102)
	38,857	33,920

The adjustment of provisions was recorded in cost of sales in the respective periods as a charge of $110 in 2014 and a charge of $100 in 2013.

NOTE 7 OTHER ASSETS

In thousands of US dollars	**September 30, 2014**	December 31, 2013
Non-current assets		
Balance at January 1	**468**	116
Business Acquisition (Note 4)	**-**	313
Convertible promissory note (Note 17)	**550**	-
Interest accrued on promissory note	**21**	-
Purchases	**-**	47
Effect of movements in exchange rates	**(5)**	(8)
Balance	**1,034**	468

No impairment charge was recognized in 2014 or 2013.

NOTE 8 LOANS AND BORROWINGS

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

During the third quarter of 2014, the Company accrued $410 and paid $430; year-to-date accrued $1,235 and paid $1,367 in interest expense on the term loan.

NOTE 9 DERIVATIVES NOT MEETING HEDGE ACCOUNTING CRITERIA

Foreign exchange hedge

There were no forward contracts outstanding at September 30, 2014 and December 31, 2013.

Interest rate swap

During 2014, the Company entered into an interest rate swap agreement for a notional amount of $22.5 million. Swap interest is calculated and settled on a monthly basis based on the difference between the floating rate of USD LIBOR and the fixed rate of 0.98%. The swap agreement matures on February 27, 2017.

During the third quarter of 2014, the net interest expense of the swap agreement was $53 and $47 was paid; year-to-date $117 and $103 respectively.

For the period ended September 30, 2014, the fair value of this agreement, representing a loss of $49, is recorded on the statement of financial position included in loans and borrowings and recorded on the statement of profit as finance costs.

The Company has entered into this interest rate swap agreement in order to fix the interest rate on a portion of its term loan and not intended for trading or speculation purposes.

NOTE 10 PROVISIONS

In thousands of US dollars	Site restoration	Stock appreciation rights	Other	Total
Balance at January 1, 2013	100	-	-	100
Provisions during the year	-	804	-	804
Provisions reversed during the year	-	-	-	-
Foreign exchange	(6)	-	-	(6)
Balance at December 31, 2013	94	804	-	898
Provisions during the year	**-**	**1,353**	**278**	**1,631**
Provisions reversed during the year	**-**	**-**	**-**	**-**
Foreign exchange	**(5)**	**(71)**	**(7)**	**(83)**
Balance at September 30, 2014	**89**	**2,086**	**271**	**2,446**

No legal provisions were recognized at September 30, 2014 and December 31, 2013.

Stock Appreciation Rights Plan

During 2011, the Company established a stock appreciation rights plan ("SARS Plan") to reward selected directors and employees.

As at September 30, 2014, 609,000 rights were outstanding with a reference price ranging between CAD $5.16 and CAD $5.25. During 2013 and 2014, no stock appreciation rights were granted to NEOs, directors and advisors to the directors. The stock appreciation rights granted in 2011 vest and are exercisable four years after the grant date and expire December 31, 2015. When exercised, cash payments net of tax withholdings are made based on the difference between the reference price at the time of the grant and the trading 10 day weighted average market price of the Company's common shares on the vesting date.

The Company recognized as employee costs $1,353 (2013: $nil) relating to the SARS Plan.

Equity Compensation Plan

During 2014, the Company has committed to providing certain executives with additional compensation based on the performance of 130,666 shares in aggregate, under a restricted stock units plan subject to shareholder approval. The Company is currently determining the details of the plan, including performance and measurement requirements, for approval by the shareholders. As at September 30, 2014 the Company has recognized as employee costs $278 (2013: $nil) related to the plan.

NOTE 11 CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital and Contributed Surplus

Issued share capital is as follows:

In thousands of shares	**September 30, 2014**	September 30, 2013	December 31, 2013
January 1	**22,748**	22,493	22,493
Exercise of share options	**129**	253	255
Balance	**22,877**	22,746	22,748

Issuance of common shares

During the third quarter of 2014, 129,500 options were exercised (year-to-date: 380,750 options) on a cash-less basis for 52,821 shares (year-to-date: 128,615 shares). During the third quarter of 2013, 400,000 options were exercised (year-to-date: 588,000 options) on a cash-less basis for 143,732 shares (year-to-date: 202,835 shares). In addition, in the first quarter of 2013, 50,000 options were exercised for cash of $146.

Repurchase of Common Shares

In 2013, the Toronto Stock Exchange ("TSX") accepted a notice filed by the Company of its intention to extend the Normal Course Issuer Bid ("NCIB") for a one year period. The TSX notice provides that the Company may, during the twelve-month period commencing May 17, 2013 and ended May 16, 2014, repurchase on the TSX up to 1,646,991 common shares representing 10% of the public float. The actual number of shares purchased, if any and the timing is determined by the Company considering market conditions, share prices, cash position and other factors.

During 2013 and the first nine months of 2014, the Company did not purchase for cancellation any of its outstanding common shares pursuant to the NCIB that was renewed May 17, 2013. The NCIB was not renewed upon expiry in 2014.

Capital and other components of equity

Contributed surplus

Contributed surplus is comprised of the difference between the book value per share and the purchase price paid for shares acquired for cancellation by the Company and stock-based compensation of employees and non-employees.

Share options outstanding as at September 30

In thousands of shares	**2014**	2013
Share options outstanding	**1,008**	1,446

380,750 options were exercised during the first nine months of 2014 and 93,750 options were forfeited.

No options were granted during the first nine months of 2014.

Share option expense

During the first nine months of 2014, the Company recognized as employee costs $493 (2013: $233) relating to prior year option grants in general and administrative expenses of the statement of income. This is net of a recovery of $123 related to the forfeiture of 93,750 options.

Dividends

Dividends on common shares were paid to shareholders of record quarterly in 2014 and 2013 as follows:

	2014		2013	
Shareholders of record at:	**$CAD**	**Date Paid**	$CAD	Date Paid
September 30	**0.05**	**October 16, 2014**	0.05	October 17, 2013
June 30	**0.05**	**July 17, 2014**	0.05	July 18, 2013
March 31	**0.05**	**April 17, 2014**	0.05	April 18, 2013

The dividend payable at September 30, 2014 was $1,025 (2013: $1,104).

NOTE 12 EARNINGS PER SHARE

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

	Common shares			
	Three-month period ended September 30		Nine-month period ended September 30	
In thousands of US dollars except per share amounts	**2014**	2013	**2014**	2013
Numerator for basic and diluted earnings per share:				
Net income	**3,861**	2,024	**10,122**	7,130
Denominator for basic and diluted earnings per share:				
Basic weighted average number of shares outstanding	**22,839**	22,681	**22,847**	22,699
Dilution effect of stock options	**303**	-	**216**	-
Diluted weighted average number of shares outstanding	**23,142**	22,681	**23,063**	22,699
Net income per share:				
Basic	**0.17**	0.09	**0.44**	0.31
Diluted	**0.17**	0.09	**0.44**	0.31

At September 30, 2014, nil options (2013: 750,000) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

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

NOTE 13 INCOME TAXES

	Three months ended September 30		Nine months ended September 30	
In thousands of US dollars	**2014**	2013	**2014**	2013
Current tax expense:				
Current period	**876**	1,159	**2,653**	3,508
Adjustment for prior periods	**(50)**	(301)	**19**	(109)
	826	858	**2,672**	3,399
Deferred tax expense:				
Origination and reversal of temporary differences	**557**	(702)	**1,130**	(1,350)
Adjustment for prior periods	**(127)**	66	**(205)**	34
	430	(636)	**925**	(1,316)
Total income tax expense	**1,256**	222	**3,597**	2,083

NOTE 14 GOVERNMENT ASSISTANCE

During the first nine months of 2014, AEP recognized grants of $1,244 to support certain initiatives (2013: $1,455) which were offset against expenses.

During the first nine months of 2014, Rubber Compounding recognized $nil (2013: $86) to support certain initiatives which were offset against expenses.

Scientific research and investment tax credits of $430 were recognized in 2014 (2013: $559). R&D costs were adjusted accordingly. In addition, $39 (2013: $84) was recognized as a reduction to capital assets in respect of provincial tax credits.

NOTE 15 POST RETIREMENT BENEFITS

	Executive Supplemental Plan		Other benefit plan	
September 30 *In thousands of US dollars*	**2014**	2013	**2014**	2013
The amounts recognized in the income statement are as follows:				
Gain on settlement	**(128)**	-	**-**	-
Post-retirement benefits expense	**-**	-	**(28)**	(32)
Interest cost	**76**	69	**16**	19
Exchange differences	**(92)**	(87)	**(23)**	(20)
Expense (recovery)	**(144)**	(18)	**(35)**	(33)

The post-retirement benefits expense was included in "general and administrative expense", gain on settlement and interest cost are included in "finance costs" and exchange differences in "other income (expense)" in the income statement.

As a result of the retirement of the former President and CEO, an actuarial report was obtained in respect of the Executive Supplemental plan. As a result, the discount rate was adjusted to 3.75% resulting in an adjustment to Other Comprehensive Income during the quarter (net of tax of $116) of $348. A cash payment was made to fund this obligation of $1,363 and a gain on settlement was recognized for $128.

Defined Contribution Plan

AirBoss Flexible Products Co. maintains a simplified employee defined contribution pension plan covering substantially all U.S. employees not covered by collective bargaining agreements. The Group's contributions are discretionary and are not to exceed 15% of the total eligible compensation earned by plan participants during the year. For the period ended September 30, 2014, the expense for this plan was approximately $180.

For the period ended September 30, 2014, the Company expensed contributions of $181 to a multi-employer pension plan. The collective bargaining agreements that require contributions to the multi-employer plan are set to expire December 31, 2014. The current agreement requires that the Group contributes $0.40 for each hour worked by eligible employees during the preceding wage month. Total estimated annual contribution to this plan for 2014 is $250.

NOTE 16 SEGMENTED INFORMATION

AirBoss operates in three business segments, AirBoss Rubber Compounding, AirBoss Engineered Products and Automotive, through five significant legal entities including the parent AirBoss of America Corp., four wholly-owned operating subsidiaries: AirBoss Rubber Compounding (NC) Inc., AirBoss Engineered Products Inc., AirBoss-Defense Inc. and AirBoss Flexible Products Co.

AirBoss Rubber Compounding is engaged in custom rubber compounding, supplying mixed rubber for use in mining, transportation, industrial rubber products, military, automotive, conveyor belting, and other products, primarily in North America.

AirBoss Engineered Products ("AEP") are world leaders in the development and sale of Chemical, Biological, Radiological and Nuclear ("CBRN") protective rubber wear for military and first response applications. AEP also produces calandered and extruded rubber products used by its customers in the manufacture of industrial products and recreational vehicles.

AirBoss Flexible Products Co. was acquired on October 18, 2013 and is a leading supplier of innovative and cost-effective anti-vibration solutions to the North American automotive market.

During the first quarter of 2014, the Company determined that the automotive segment constituted a reportable segment and that comparative information will be restated for the change. AirBoss Flexible Products is reported in this segment.

Information about reportable segments Three months ended September 30	Rubber Compounding		AEP		Automotive		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Segment revenue	**39,242**	39,320	**12,784**	15,141	**29,985**	-	**-**	-	**82,011**	54,461
Inter-segment revenue	**(6,841)**	(1,780)	**(951)**	(641)	**-**	-	**-**	-	**(7,792)**	(2,421)
External revenues	**32,401**	37,540	**11,833**	14,500	**29,985**	-	**-**	-	**74,219**	52,040
Reportable segment profit before income tax	**2,110**	1,182	**1,161**	1,920	**2,309**	-	**(463)**	(856)	**5,117**	2,246
Reportable segment assets[1]	**71,008**	71,084	**36,255**	35,908	**69,776**	68,323	**1,560**	10,457	**178,599**	185,772
Reportable segment liabilities[1]	**13,428**	19,113	**6,635**	8,404	**9,980**	12,630	**60,704**	64,485	**90,747**	104,632
Depreciation and amortization	**939**	896	**591**	566	**670**	-	**6**	5	**2,206**	1,467
Finance cost	**708**	96	**12**	58	**-**	-	**(210)**	58	**510**	212
Income tax expense	**1,047**	375	**386**	171	**141**	-	**(318)**	(324)	**1,256**	222
Capital expenditures[2]	**417**	799	**849**	236	**270**	-	**2**	13	**1,538**	1,048

Information about reportable segments Nine months ended September 30	Rubber Compounding		AEP		Automotive		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Segment revenue	**124,596**	129,554	**35,120**	47,204	**92,666**	-	**-**	-	**252,382**	176,758
Inter-segment revenue	**(24,735)**	(7,674)	**(2,539)**	(3,026)	**-**	-	**-**	-	**(27,274)**	(10,700)
External revenues	**99,861**	121,880	**32,581**	44,178	**92,666**	-	**-**	-	**225,108**	166,058
Reportable segment profit before income tax	**5,600**	5,202	**2,421**	5,274	**8,059**	-	**(2,361)**	(1,263)	**13,719**	9,213
Reportable segment assets[1]	**71,008**	71,084	**36,255**	35,908	**69,776**	68,323	**1,560**	10,457	**178,599**	185,772
Reportable segment liabilities[1]	**13,428**	19,113	**6,635**	8,404	**9,980**	12,630	**60,704**	64,485	**90,747**	104,632
Depreciation and amortization	**2,861**	2,673	**1,638**	1,747	**2,008**	-	**19**	18	**6,526**	4,438
Finance cost	**2,063**	320	**10**	205	**-**	-	**(358)**	81	**1,715**	606
Income tax expense	**3,285**	1,576	**940**	1,055	**582**	-	**(1,210)**	(548)	**3,597**	2,083
Capital expenditures[2]	**959**	3,045	**1,300**	918	**872**	-	**4**	17	**3,135**	3,980

[1] Comparative figures as at December 31, 2013.

[2] Comparative figures as at September 30, 2013.

Geographical segments

The Rubber Compounding, AEP and Automotive segments operate manufacturing facilities and sales offices in the US and Canada, selling primarily in North American markets.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Non-current assets include property, plant and equipment, software, goodwill, future income taxes and other assets.

	Revenues		Revenues		Non-current assets		Non-current assets
	Three months ended September 30		Nine months ended September 30		September 30		December 31, 2013
In thousands of US dollars	**2014**	2013	**2014**	2013	**2014**	2013	
Canada	**17,435**	13,692	**51,481**	47,887	**40,800**	42,314	42,327
United States	**53,237**	37,442	**160,400**	115,645	**46,248**	9,521	47,711
Other countries	**3,547**	907	**13,227**	2,526	**-**	-	-
	74,219	52,040	**225,108**	166,058	**87,048**	51,835	90,038

Major customers

Revenues from one customer represent approximately 10% (2013: 16%) of the Group's total external revenues. Five customers represented 31% (2013: 43%) of the Company's total revenues.

Major Products

	Three months ended September 30		Nine months ended September 30	
In thousands of US dollars	**2014**	2013	**2014**	2013
Rubber Compounding				
Tolling	**2,168**	1,301	**5,034**	3,379
Mixing	**30,233**	36,239	**94,827**	118,501
	32,401	37,540	**99,861**	121,880
AEP				
Industrial	**6,619**	7,172	**20,165**	23,598
Defense	**5,214**	7,328	**12,416**	20,580
	11,833	14,500	**32,581**	44,178
Automotive	**29,985**	-	**92,666**	-

NOTE 17 RELATED PARTIES

Included in the operating lease commitments was a rental agreement for corporate office space between the Company and a company controlled by the Chairman of the Company. The monthly lease rate approximates fair market rental value. During the quarter, the Company paid rent for the corporate office of $42 (2013: $39), year-to-date $124 (2013: $128).

During the quarter, the Company paid fees for the use of a facility in South Carolina of approximately $5 (2013: $7), year-to-date $16 (2013: $17) to a company in which the Chairman is an officer.

In addition, AirBoss Flexible Products Co. paid rent to a company controlled by an employee of the Company to utilize its facilities. Rent paid to this related party for the quarter was $263 (year-to-date $788).The lease provides for monthly payments equivalent to an annual rental of $1,050 and expires in 2019.

During the second quarter of 2014, the Company invested $550 in the form of a convertible promissory note in a company for which the President is the Chairman. This note can be convertible to an equity interest under the following conditions: (1) the company has completed "qualified financing" raising $1 million in gross proceeds (excluding the company's loan); (2) if no "qualified financing" takes place prior to the maturity date, the Company has the option to convert into common stock within 60 days prior to the maturity date of the note. The note bears interest at 8% per annum. Unless converted or prepaid earlier, principal and accrued interest on the note will be due on April 11, 2016.

During the quarter, interest income on this convertible promissory note of $11 (year-to-date $21) is recorded on the statement of financial position included in other assets and recorded on the statement of income as interest income.

The convertible promissory note is accounted for as a loan receivable with separation of the conversion options that represent embedded derivatives. The loan is initially recognized at its fair value by discounting future cash flows at market interest rate for similar financial debt without the conversion options and is subsequently measured at amortized cost. The embedded derivatives are accounted for at fair value, which is currently considered nominal.

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