

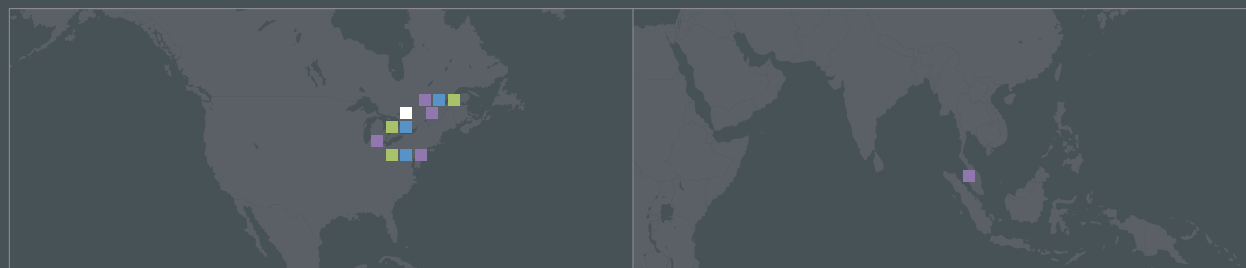
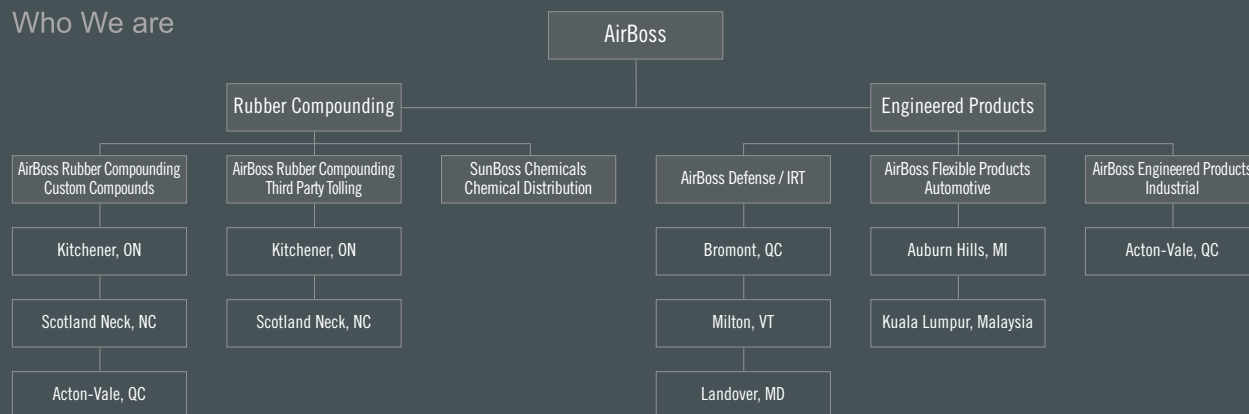


2015 Second Quarter

Interim Report



Who We are



Locations

- Head Office
- Research Facility
- Compounding/Mixing
- Engineered Products

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To Our Shareholders

2015 2nd Quarter versus 2014 2nd Quarter Highlights

- Basic Adjusted EPS increased by 20% to US \$0.24 from US \$0.20
- Adjusted EBITDA increased by 12.4% to \$9.9 million from \$8.8 million
- Share-based compensation expenses of \$4.1 million
- Gross margin improved to 18.7% from 15.7%

Overview

We are very pleased with the positive results that our team has delivered in the second quarter of 2015 and year-to-date. These results have been achieved in a highly competitive business environment and a challenging macro-environment, where global economic uncertainties and commodity cycles continue to impact some of our traditional markets and customers.

Results for both the second quarter and year-to-date have demonstrated management's focus on our strategic initiatives and our disciplined and proactive approach to improving operating margins through a combination of diversifying our customer base, improving the efficiency of our existing assets and concentrating on higher margin business across all of our divisions.

Rubber Compounding

While volumes (expressed as pounds shipped) declined slightly in the second quarter on a year-over-year basis, gross margin dollars improved materially, increasing by 37% notwithstanding continuing declines in raw material prices during the period which negatively impacted revenue. The improvement is a result of our continual focus on operating efficiencies and reducing conversion costs within the business, as well as diversifying our customer base and a shift in product mix toward higher end compounds.

AirBoss Engineered Products

Defense's performance in the second quarter 2015 was largely consistent with that of the prior year, however it is significantly better on a year-to-date basis. Deliveries against the US Department of Defense ("DoD") contracts for overboots and gloves will continue through the remainder of the year and management anticipates positive responses on various international tenders we are participating in for deliveries in 2016 and beyond.

The recent acquisition of Immediate Response Technologies, LLC ("IRT") provides a very positive complement to our existing defense business, expanding our product offering and potential customer base. We have already begun to integrate IRT's operations and products, and intend to realize the potential synergies by cross-selling our existing products and IRT's products into new end-user groups and new regions under the common brand of "AirBoss Defense". We believe our combination of products are uniquely positioned to respond to the increasing protection needs of the First Responder, Law Enforcement, Medical and Military communities to chemical and biological threats and that the combination of the two businesses will be very effective.

Industrial products had a challenging quarter, experiencing continued volatility among certain of its market segments and a large customer. While management anticipates continued volatility, it is actively pursuing and working on business development projects for new customers with diversified end use applications. The current level of oil prices has impacted the timing and pace of onboarding new customers in that segment, but management is optimistic that our efforts in this area have the potential to have a material impact on the industrial products business as our penetration in the sector increases.

To Our Shareholders

Automotive

Flexible Products continues to benefit from the strong North American automotive manufacturing environment, particularly in the Light Truck sector, and industry projections are for this to continue for the remainder of 2015 and into 2016. Sales volume increased as a result of both higher content per vehicle and new product introductions. Management expects to launch approximately 40 new products this year, similar to 2014. In addition, increased demand for more fuel efficient vehicles translates into lighter weight vehicles, which are more subject to vibration, organically expanding the potential market for our noise dampening and anti-vibration products.

Outlook

The Rubber Compounding business remains highly competitive, larger industry conditions affecting our customers remain challenging and, despite a level of capacity rationalization within the industry, lead order times continue to shrink. Management anticipates this to continue and we have therefore adapted our operating model to ensure we are flexible and highly responsive to this dynamic. We expect our performance in the second half of 2015 to be consistent with that of the first half. We have several promising opportunities that we hope to realize in the second half of the year, which will continue to ramp up through 2016. We remain focused on increasing capacity utilization, diversifying our customer base and to service new and existing customers as a leading supplier of higher end compounds.

Engineered Products, which includes defense, will benefit through 2015 from the continued delivery of protective overboots and gloves against the aforementioned US DoD contracts as well as the ongoing development of overseas markets and the commercialization of our new low burden gas mask. The addition of IRT's products to our existing product lineup forms a more complete CBRN suite that we believe will be very compelling.

The Automotive business is expected to continue to perform strongly for the remainder of the year as a result of forecasted continued strength in the US automotive manufacturing sector and planned mid-year new product launches.

As we look toward the second half of the year, there is no doubt that global economic uncertainty is impacting some of our traditional markets and customers. The Company has successfully navigated such conditions in the past and management believes the Company is better positioned today to continue to do so. In addition to maintaining a strong financial position, we are increasingly more proactive and disciplined in managing the business and achieving our strategic objectives, and our results are showing the results of these efforts. We remain focused on the initiatives described above and on strategic growth, both through organic growth and potential acquisitions.



P.G. Schoch
Chairman and CEO



Lisa Swartzman
President

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of AirBoss of America Corp. ("AirBoss" or the "Company") has been prepared as of August 11, 2015 and should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements and Notes for the three-month and six-month periods ended June 30, 2015 and the MD&A for the year ended December 31, 2014. 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 second 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; AirBoss' ability to successfully integrate acquisitions of other businesses and/or companies or to realize on the anticipated benefits thereof; changes in accounting policies and methods, including uncertainties associated with critical accounting assumptions and estimates; changes in the value of the Canadian dollar relative to the US dollar; changes in tax laws and potential litigation; ability to obtain financing on acceptable terms; environmental damage 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 2014 Annual Report to Shareholders under the heading "Risk Factors".

MD&A (cont'd)

Operational Highlights

2015 2nd Quarter versus 2014 2nd Quarter Highlights

- Basic Adjusted EPS increased by 20% to US \$0.24 from US \$0.20
- Adjusted EBITDA increased by 12.4% to \$9.9 million from \$8.8 million
- Share-based compensation expenses of \$4.1 million
- Gross margin improved to 18.7% from 15.7%

Selected Financial Information

In thousands of US dollars, except share amounts outstanding, per share amounts in US dollars

	Three months ended June 30 (unaudited)		Six months ended June 30 (unaudited)	
	2015	2014	2015	2014
Financial results:				
Net sales	\$76,964	\$79,473	\$153,820	\$150,889
Net income	2,378	3,780	5,558	6,261
Net income per share				
– Basic	0.10	0.17	0.24	0.28
– Diluted	0.10	0.16	0.24	0.27
Adjusted EPS				
– Basic	0.24	0.20	0.44	0.31
– Diluted	0.23	0.20	0.43	0.31
Adjusted EBITDA (non-IFRS financial measure)	9,942	8,849	18,920	15,202
Net cash (used in) from operating activities	15,634	1,907	9,749	(8,016)
Dividends declared per share	0.06	0.05	0.12	0.10
Capital expenditures	1,868	1,150	3,094	1,597
Financial position:				
Total assets	June 30, 2015		December 31, 2014	
	\$190,845		\$188,906	
Term loan and other debt	47,682		50,948	
Shareholders' equity	93,734		90,035	
Outstanding shares	*22,998,760		22,998,760	
	<i>*22,998,760 at August 11, 2015</i>			

Non-IFRS Financial Measures

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

EBITDA	Earnings before interest income, interest expense, income taxes and depreciation and amortization
Adjusted EBITDA	Earnings before interest income, interest expense, income taxes, depreciation and amortization and share-based compensation expenses
Adjusted EPS	Net income per share before deduction of share-based compensation expenses

EBITDA, Adjusted EBITDA and Adjusted EPS are non-IFRS measures directly derived from the consolidated financial statements, but do not have a standardized meaning prescribed by IFRS and are 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 net income to EBITDA and Adjusted EBITDA is presented below:

In thousands of US dollars	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
EBITDA:				
Net Income	\$2,378	\$3,780	\$5,558	\$6,261
Finance costs	406	625	916	1,205
Depreciation and amortization of intangible assets	2,130	2,245	4,299	4,320
Income tax expense	929	1,209	2,128	2,341
EBITDA	\$5,843	\$7,859	\$12,901	\$14,127
Add back:				
Share-based compensation attributed to changes in share price	4,099	990	6,019	1,075
Adjusted EBITDA	\$9,942	\$8,849	\$18,920	\$15,202

AirBoss of America Corp.

MD&A (cont'd)

RESULTS OF OPERATIONS – 2015 compared to 2014 (cont'd)

NET SALES

Net Sales decreased by 3.2% in the second quarter of 2015 compared to 2014. The strong sales increase experienced by the Automotive segment was offset by sales dollar decreases in the industrial products business within AirBoss Engineered Products (“AEP”) and Rubber Compounding. The sales dollar decrease in Rubber Compounding was primarily from the impact of lower raw material prices, where the savings are passed on to customers.

On a year-to-date basis, sales increased 1.9% primarily from robust sales increases in Automotive and the defense business within AEP. These gains were partially offset by declines in Rubber Compounding, which are largely attributable to lower raw material prices, and a decline in the industrial products business.

Three months ended June 30 <i>In thousands of US dollars</i>		Rubber Compounding	AEP	Automotive	Total
Net Sales	2015	\$29,426	\$11,527	\$36,011	\$76,964
	2014	\$34,802	\$12,722	\$31,949	\$79,473
Increase (decrease) \$		(5,376)	(1,195)	4,062	(2,509)
Increase (decrease) %		(15.4)	(9.4)	12.7	(3.2)

Six months ended June 30 <i>In thousands of US dollars</i>		Rubber Compounding	AEP	Automotive	Total
Net Sales	2015	\$61,333	\$22,669	\$69,818	\$153,820
	2014	\$67,460	\$20,748	\$62,681	\$150,889
Increase (decrease) \$		(6,127)	1,921	7,137	2,931
Increase (decrease) %		(9.1)	9.3	11.4	1.9

Rubber Compounding

After eliminating intercompany sales, sales volume (expressed in pounds shipped) decreased by 4.1% for the three-month period ended June 30, 2015 and 1.3% on a year-to-date basis, compared to the same periods in 2014. Sales dollars for the quarter decreased by \$5,376 and \$6,127 on a year-to-date basis. Raw material prices were down 17% for the second quarter 2015 and 14% on a year-to-date basis as compared to the same periods in 2014, which accounted for the majority of the decline in sales as savings were passed on to customers.

Tolling volumes increased by 22.3% for the second quarter and 8.4% on a year-to-date basis as compared to the same periods in 2014; tolling rates were down 4.5% for the quarter and 5.9% for the year as a result of product mix. Volumes for the non-tolling portion of the business were down 8.8% in the second quarter and 3.1% on a year-to-date basis compared to the same periods in 2014, driven primarily by declines in the conveyor belt and off the road (“OTR”) retreading segments and partially offset by increased volume in the solid tire, infrastructure and defense segments.

AEP

AEP sales decreased by \$1,195 in the second quarter as compared to the same period in 2014, with declines in both the industrial products and defense businesses. On a year-to-date basis, sales increased by \$1,921 compared to 2014 due to increases in defense and partially offset by declines in industrial products.

In the defense business, on a quarter-over-quarter basis, sales were down as a result of volume thresholds associated with the US Department of Defense (“DoD”) overboot contract being exceeded and lower gas mask volume when compared to the prior year. This was partially offset by additional sales of ECW (“Extreme Cold Weather”) boots and gloves. On a year-to-date basis sales have increased by \$3,255 primarily related to deliveries on the US DoD overboot contract as well as increased glove and ECW sales.

Sales in the industrial products business declined by 9.2% or \$622 on a quarterly basis and 9.8% or \$1,332 on a year-to-date basis as compared to the same periods in 2014 primarily as a result of continued softness in the belting, tire and hose markets, partially offset by improvements in niche market applications.

Automotive

Automotive (“Flexible”) sales, increased by 12.7% for the three-month period ended June 30, 2015 and 11.4% on a year-to-date basis as compared to the same periods in 2014. Increased demand in the Light Truck market across all Original Equipment Manufacturers (“OEM”) combined with improved customer penetration through the sale of a broader product mix to key customers improved sales volume and drove the majority of the revenue increase.

MD&A (cont'd)

RESULTS OF OPERATIONS – 2015 compared to 2014 (cont'd)

GROSS MARGIN

Consolidated gross margin for the quarter ended June 30, 2015 was \$14,385 (2014: \$12,485), an increase of \$1,900 from 2014. This was primarily attributable to increased sales at Flexible, lower conversion costs in Rubber Compounding and continued focus on control over purchasing, particularly raw materials, and was partially offset by the impact of lower volumes for Rubber Compounding and AEP.

Three months ended June 30 <i>In thousands of US dollars</i>		Rubber Compounding	AEP	Automotive	Total
Gross Margin	2015	\$6,213	\$2,367	\$5,805	\$14,385
	2014	\$4,541	\$3,222	\$4,722	\$12,485
Increase (decrease) \$		1,672	(855)	1,083	1,900
% of net sales	2015	21.1	20.5	16.1	18.7
	2014	13.1	25.3	14.8	15.7

Six months ended June 30 <i>In thousands of US dollars</i>		Rubber Compounding	AEP	Automotive	Total
Gross Margin	2015	\$11,197	\$4,481	\$11,188	\$26,866
	2014	\$7,840	\$4,286	\$9,809	\$21,935
Increase (decrease) \$		3,357	195	1,379	4,931
% of net sales	2015	18.3	19.8	16.0	17.5
	2014	11.6	20.7	15.6	14.5

Rubber Compounding

Gross margin for Rubber Compounding increased by \$1,672 in the second quarter and \$3,357 on a year-to-date basis as compared to the same periods in 2014, primarily as a result of improved product mix, production optimization programs and focus on inventory management. In both the second quarter and on a year-to-date basis the gross margin as a percentage of sales increased as compared to the same periods in 2014 as a result of the aforementioned factors.

AEP

Gross margin for AEP decreased by \$855 in the second quarter compared to 2014 primarily as a result of lower volumes in the second quarter. On a year-to-date basis gross margin for AEP increased by \$195 as a result of a large shipment of CBRN overboots in the first quarter of 2015.

As a percentage of sales, gross margin in the second quarter declined 4.8% compared to Q2 2014 and 0.9% on a year-to-date basis as a result of product mix and reduced volumes.

Automotive

Gross margin for Flexible improved by \$1,083 in the second quarter and by \$1,379 on a year-to-date basis as compared to the same periods in 2014 primarily as a result of higher sales volume.

Gross margin as a percentage of sales for the second quarter improved by 1.3% and 0.4% on a year-to-date basis over the same periods in 2014 as a result of product mix and increased focus on production productivity and purchasing initiatives.

OPERATING EXPENSES

Consolidated operating expenses increased for the quarter by \$3,801, and year-to-date \$6,136, primarily due to share-based compensation and acquisition expenses at Corporate.

Three months ended June 30 <i>In thousands of US dollars</i>		Rubber Compounding	AEP	Automotive	Unallocated Corporate Costs	Total
Operating Expenses	2015	\$1,558	\$1,590	\$2,262	\$5,262	\$10,672
	2014	\$1,316	\$1,492	\$2,029	\$2,034	\$6,871
Increase (decrease) \$		242	98	233	3,228	3,801
% of net sales	2015	5.3	13.8	6.3	N/A	13.9
	2014	3.8	11.7	6.4	N/A	8.6

Six months ended June 30 <i>In thousands of US dollars</i>		Rubber Compounding	AEP	Automotive	Unallocated Corporate Costs	Total
Operating Expenses	2015	\$3,525	\$3,156	\$4,490	\$7,093	\$18,264
	2014	\$2,996	\$3,027	\$4,059	\$2,046	\$12,128
Increase (decrease) \$		529	129	431	5,047	6,136
% of net sales	2015	5.7	13.9	6.4	N/A	11.9
	2014	4.4	14.6	6.5	N/A	8.0

AirBoss of America Corp.

MD&A (cont'd)

RESULTS OF OPERATIONS – 2015 compared to 2014 (cont'd)

Rubber Compounding

For the three and six-month periods ended June 30, 2015, Rubber Compounding expenses increased by \$242 and \$529 respectively.

During the quarter, general and administrative expenses increased by \$84 due to an increase in salaries and benefits and recruitment efforts. Product research increased by \$137 including an adjustment for R&D credits of \$38.

During the six-month period ended June 30, 2015, general and administrative expenses increased by \$203 due to an increase in salaries and benefits, recruitment efforts and provisions for doubtful accounts of \$77. Corporate charges increased by \$149, sales and marketing expenses increased by \$38 and other expenses increased by \$48. Product research increased by \$91 including an adjustment for R&D credits of \$88.

AEP

For the three and six-month periods ended June 30, 2015, AEP's expenses increased by \$98 and \$129 respectively.

During the quarter and year-to-date, the increase was primarily related to increases in unrealized foreign exchange losses offset by decreases in general and administrative expenses due to lower costs related to salaries and benefits.

Automotive

For the three and six-month periods ended June 30, 2015, Automotive's operating expenses increased by \$233 and \$432 respectively.

During the quarter and year-to-date, the increase was primarily related to general and administrative expense increases due to higher costs related to salaries and benefits.

Unallocated Corporate Costs

For the three-month period ended June 30, 2015, unallocated corporate costs increased by \$3,228. The increase was due to higher compensation expenses incurred as a result of stock appreciation rights, restricted stock units, and stock options of \$3,109. During the quarter, \$299 of acquisition costs were incurred relating to the acquisition of Immediate Response Technologies, LLC ("IRT") (Note 17).

For the six-month period ended June 30, 2015, unallocated corporate costs increased by \$5,047. The increase was primarily related to higher compensation expenses incurred as a result of stock appreciation rights, restricted stock units, and stock options of \$4,943. During the six-month period ended June 30, 2015, acquisition costs of \$501 were incurred relating to the acquisition of IRT (Note 17).

FINANCE COST

Three months ended June 30 <i>In thousands of US dollars</i>		Rubber Compounding	AEP	Automotive	Corporate Costs	Total
Finance cost	2015	\$682	\$(6)	\$-	\$(270)	\$406
	2014	\$670	\$(6)	\$-	\$(39)	\$625
Increase (decrease) \$		12	-	-	(231)	(219)
% of net sales	2015	2.3	0.0	0.0	N/A	0.5
	2014	1.9	0.0	0.0	N/A	0.8

Six months ended June 30 <i>In thousands of US dollars</i>		Rubber Compounding	AEP	Automotive	Corporate Costs	Total
Finance cost	2015	\$1,360	\$(2)	\$-	\$(442)	\$916
	2014	\$1,355	\$(2)	\$-	\$(148)	\$1,205
Increase (decrease) \$		5	-	-	(294)	(289)
% of net sales	2015	2.2	0.0	0.0	N/A	0.6
	2014	2.0	0.0	0.0	N/A	0.8

Finance costs in 2015 were \$406 for the quarter (2014: \$625) and year-to-date \$916 (2014: \$1,205), and were impacted by favourable declines in the borrowing rate.

INCOME TAX EXPENSE

The Company recorded an income tax expense of \$929 in the quarter (2014: \$1,209) and \$2,128 year-to-date (2014: \$2,341) or an effective income tax rate for the quarter of 28.1% (24.2% in 2014) and 27.7% year-to-date (27.2% in 2014). The effective tax rate is impacted by the portion of income that is earned in Canada versus the US where the statutory tax rate is higher.

The current quarter's tax expense decreased by \$105 relating to differences on filing Canadian tax returns.

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.

RESULTS OF OPERATIONS – 2015 compared to 2014 (cont'd)

NET INCOME AND EARNINGS PER SHARE

Net income in 2015 amounted to \$2,378 and \$5,558 for the quarter and year-to-date compared to \$3,780 and \$6,261 in 2014. The decrease is primarily attributable to share-based compensation and acquisition expenses. The basic and fully diluted net earnings per share in the second quarter and year-to-date were \$0.10 and \$0.24 (2014 – \$0.17 and \$0.16) and \$0.10 and \$0.24 (2014 – \$0.28 and \$0.27) based on basic and fully diluted shares outstanding of 22,998,760 (2014 – 22,767,479) and 23,541,793 (2014 – 22,958,841) respectively.

QUARTERLY INFORMATION

<i>In thousands of US dollars</i>			Net Income (loss) per share	
Quarter Ended	Net Sales	Net Income (loss)	Basic	Diluted
2015				
June 30, 2015	76,964	2,378	0.10	0.10
March 31, 2015	76,856	3,180	0.14	0.14
2014				
December 31, 2014	78,043	3,603	0.16	0.16
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

Items impacting comparability of quarters

- The second quarter of 2015 was impacted by increased share-based compensation expense and acquisition costs related to IRT.
- The fourth quarter of 2013 was impacted by transaction costs incurred in the acquisition of Flexible of \$2.0 million, increased share-based payment expense of \$0.8 million offset by the contribution to earnings of Flexible of \$0.5 million.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its 2015 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 facility. The Company's operating loan facility provides financing of up to \$40,000 (2014: \$40,000). No amount was drawn against this facility at June 30, 2015.

In the six-month period ended June 30, 2015, \$9,749 (2014: \$8,016 used in) was provided by operations, \$3,094 (2014: \$2,157) was used in investing activities and \$4,736 (2014: \$4,984) was used in financing activities. Cash and cash equivalents increased by \$1,919 from \$13,139 to \$15,022, adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

The factors contributing to cash provided by operating activities compared to 2014 include:

- Lower income of \$703 primarily related to higher share-based compensation expense
- Cash used for working capital was lower at \$5,980 (2014: \$21,156) for the six-months ended June 30, 2015

Accounts Receivable increased by \$4,555 of which, \$4,862 is attributable to Automotive consistent with increased sales and \$609 to AEP due to extended credit terms with certain customers and partially offset by a decrease in Rubber Compounding due to timing of collection of receivables. Eighty-three percent of outstanding receivables are within credit terms which is consistent with December 31, 2014 balances.

Inventory at Rubber Compounding decreased by \$1,741 due to timing of purchase deliveries and lower raw material costs. Inventory at Automotive and AEP has decreased \$1,590 and \$197 respectively reflecting management's initiatives in reducing inventory on hand.

Prepaid expenses increased \$1,121 reflecting the renewal of insurance.

Accounts payable decreased \$3,716 due to timing of payments.

Income tax paid was \$1,860, \$1,447 higher compared to 2014 from the timing of required remittances and higher taxable income.

The Company paid interest of \$823 (2014: \$1,147) in the first half of 2015.

MD&A (cont'd)

Investing Activities

Property, Plant and Equipment

In 2015, Rubber Compounding invested \$21 for environmental initiatives and \$667 to replace manufacturing equipment in its Kitchener facility.

AEP's industrial products invested \$214 to replace industrial products' machinery and equipment and to support product research, \$32 for health and safety, \$276 to support growth, and \$91 for cost savings initiatives. Defense invested \$264 to support growth, \$24 to replace machinery and equipment, \$13 for product research and \$7 for cost savings.

Automotive invested \$969 to support growth and \$279 to replace and upgrade existing software, trucks and presses, and \$8 for environmental purposes.

Corporate invested \$89 in leasehold improvements to support growth.

Intangible assets

The Company invested \$140 (2014: \$200) in software to support customer requirements, management, costing, maintenance and ancillary systems.

Financing activities

At June 30, 2015, the Company had not drawn against its operating facility.

During the six-month period, the required principal repayments of \$2,658 (2014: \$2,708) were made pursuant to the Company's term loan agreement. The Company's unused operating facility at June 30, 2015 was \$40,000 (2014: \$40,000).

The Company expects to fund its 2015 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 facility.

The Company paid dividends of \$1,086 during the quarter (2014: \$1,030) and \$2,078 year-to-date (2014: \$2,099). In the first half of 2014, no shares were purchased for cancellation under the Normal Course Issuer Bid ("NCIB"). The NCIB was not renewed upon expiry in May, 2014.

Government assistance

During the quarter, AEP recognized grants of \$110 (2014: \$694); year-to-date \$273 (2014: \$975) to support certain initiatives which were offset against expenses.

During the quarter, Rubber Compounding recognized \$2 (2014: \$nil); year-to-date \$2 (2014: \$nil) to support certain initiatives which were offset against expenses.

During the first six months of 2015 and 2014, Automotive recognized no grants.

Scientific research and investment tax credits of \$99 (2014: \$367) were recognized in the quarter; year-to-date \$149 (2014: \$367); R&D costs were adjusted accordingly. In addition \$213 (2014: \$39); year-to-date \$213 (2014: \$39) was recognized as a reduction to capital assets in respect of provincial tax credits.

Dividends

A quarterly dividend of \$0.06 per share was declared on March 18, 2015 and paid April 16, 2015; \$0.06 per share quarterly dividend was declared in the second quarter and paid July 16, 2015. Total annual dividends declared during 2014 were \$0.20 per common share.

Outstanding shares

As at August 11, 2015 the Company had 22,998,760 common shares and 1,048,000 share options outstanding.

TRANSACTIONS WITH RELATED PARTIES

Included in the operating lease commitments is a rental agreement for corporate office space between the Company and a company controlled by the Chairman and CEO of the Company. The monthly lease rate approximates fair market rental value. During the quarter, the Company paid rent for the corporate office of \$36 (2014: \$41), year-to-date \$73 (2014: \$83).

During the quarter, the Company paid fees for the use of a facility in South Carolina of approximately \$5 (2014: \$6), year-to-date \$11 (2014: \$11) to a company in which the Chairman and CEO is an officer.

In addition, during the quarter, Flexible paid rent of \$263 (2014: \$262), year-to-date \$525 (2014: \$525) to a company controlled by an employee of the Company to utilize its facilities. The lease expires in 2019.

During 2014, the Company invested \$550 in the form of a convertible promissory note in a company for which the Deputy Chairman is the Chairman. This note can be convertible to an equity interest under the following conditions: (1) if the company has completed "qualified financing" raising \$1 million in gross proceeds (excluding the company's loan), the note converts automatically; (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 (2014: \$10), year-to-date \$22 (2014: \$10) 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.

During the fourth quarter of 2014, the Company provided share purchase loans of CAD \$1,000 each to both the President and Chief Financial Officer to purchase shares of the Company. The promissory notes are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or November 24, 2019. The promissory notes bear interest at 1% annually with full recourse and interest is due and payable semi-annually. 201,000 shares of the Company having a fair value of \$3,589 were pledged as collateral. At June 30, 2015, the promissory notes of \$1,602, including accrued interest of \$9 were included in other assets. Interest of \$9 during the quarter was paid.

FINANCIAL INSTRUMENTS

Foreign exchange contract

At June 30, 2015, the Company had contracts to sell US \$20,074 in 2015 for CAD \$24,100 (December 31, 2014: sell US \$10,460 in 2015 for CAD \$12,000). The fair value of these contracts, representing a loss of \$779 (2014: loss of \$116) is recorded on the statement of financial position included in trade and other payables, including derivatives and changes in fair value recorded on the statement of income as expense.

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 second quarter of 2015, the net interest expense of the swap agreement was \$44 and \$45 was paid; (2014: \$47 and \$47 was paid); year-to-date \$91 and \$106 was paid (2014: \$64 and \$56 was paid).

For the period ended December 31, 2014, the fair value of this agreement, representing a loss of \$76, was recorded on the statement of financial position included in loans and borrowings and changes in fair value were recorded on the statement of income 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 it does not intend to hold 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, 2014 and have been applied consistently to all periods presented in the condensed consolidated financial statements.

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

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

On December 18, 2014 the IASB issued amendments to IAS 1 "Presentation of Financial Statements" ("IAS 1") as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). These amendments will not require any significant change to current practice, but should facilitate improved financial statements disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Company is currently assessing the impact of these amendments 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.

OUTLOOK

Overall the Company remains focused on several key initiatives:

1. Operating margin improvement
2. Further integration of the business divisions
3. Global growth
4. Acquisitions

We continue to focus on improving operating margins through a combination of increasing capacity utilization, improving the efficiency of our existing asset base and concentrating on higher margin business across all of our divisions, where we can leverage the significant value we provide to our customers from our chemical and engineering expertise.

Our business divisions are working closely together to develop new opportunities that cross 'division lines' and have both a rubber compounding and engineered product component. More than ever, our operations teams are evaluating and implementing common best practices in manufacturing processes.

The recent acquisition of IRT provides a very positive complement to our existing defense business, expanding our product offering and potential customer base. We have already begun to integrate IRT's operations and products and intend to realize the potential synergies by cross-selling our existing products and IRT's products into new-end user groups and new regions, under the common brand of "AirBoss-Defense". We believe our combination of products are uniquely positioned to respond to the increasing protection needs of the First Responder, Law Enforcement, Medical and Military communities to chemical and biological threats and that the combination of the two businesses will be very effective.

As we look toward the second half of the year, there is no doubt that global economic uncertainty is impacting some of our traditional markets and customers. However, the Company has successfully navigated such conditions in the past and management believes the Company is better positioned today to continue to do so at the present time. In addition to maintaining a strong financial position, we are increasingly more proactive and disciplined in managing the business and achieving our strategic objectives, and our results have been very encouraging despite these challenges. We remain focused on the initiatives described above and on strategic growth, both through organic growth and potential acquisitions.

August 11, 2015



P.Gren Schoch
Chairman and Chief Executive Officer



Wendy Ford
Chief Financial Officer

2015

Condensed Consolidated Statement of Financial Position

Unaudited

As at:*In thousands of US dollars*

	Note	June 30, 2015	December 31, 2014
ASSETS			
Current assets			
Cash and cash equivalents		15,022	13,139
Trade and other receivables	4	47,116	42,546
Prepaid expenses		3,642	2,536
Inventories	5	36,127	39,655
Current income taxes receivable	12	98	652
Other assets	6	604	-
Total current assets		102,609	98,528
Non-current assets			
Property, plant and equipment		54,849	55,334
Intangible assets		31,333	32,277
Other assets	6	2,054	2,767
Total non-current assets		88,236	90,378
Total assets		190,845	188,906
LIABILITIES			
Current liabilities			
Loans and borrowings	7	11,517	11,663
Trade and other payables, including derivatives	8	35,259	38,437
Employee benefits	14	1,184	1,445
Provisions	9	7,764	2,956
Total current liabilities		55,724	54,501
Non-current liabilities			
Loans and borrowings	7	36,165	39,285
Employee benefits	14	577	434
Provisions	9	813	280
Deferred income tax liabilities	12	3,832	4,371
Total non-current liabilities		41,387	44,370
Total liabilities		97,111	98,871
EQUITY			
Share capital	10	37,784	37,784
Contributed surplus	10	1,428	1,074
Retained earnings		54,522	51,177
Total equity		93,734	90,035
Total liabilities and equity		190,845	188,906

The notes on pages 17 to 25 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Profit and Comprehensive Income

Unaudited

For the three and six month periods ended June 30	Note	Three-month		Six-month	
		2015	2014	2015	2014
<i>In thousands of US dollars</i>					
Revenue		76,964	79,473	153,820	150,889
Cost of sales		(62,579)	(66,988)	(126,954)	(128,954)
Gross profit		14,385	12,485	26,866	21,935
General and administrative expenses		(8,555)	(5,064)	(14,790)	(9,283)
Selling and marketing expenses		(1,248)	(1,345)	(2,511)	(2,547)
Research and development expenses	13	(523)	(170)	(1,006)	(703)
Other income (expense)		(346)	(292)	43	405
Operating Expenses		(10,672)	(6,871)	(18,264)	(12,128)
Results from operating activities		3,713	5,614	8,602	9,807
Finance costs	8,15	(406)	(625)	(916)	(1,205)
Profit before income tax		3,307	4,989	7,686	8,602
Income tax expense	12	(929)	(1,209)	(2,128)	(2,341)
Profit and total comprehensive income for the period		2,378	3,780	5,558	6,261
Earnings per share					
Basic	11	0.10	0.17	0.24	0.28
Diluted	11	0.10	0.16	0.24	0.27

The notes on pages 17 to 25 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity

Unaudited

<i>In thousands of US dollars</i>	Attributable to equity holders of the Company			
	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance at January 1, 2014	37,325	1,735	42,080	81,140
Profit and total comprehensive income for the period	-	-	6,261	6,261
Contributions by and distributions to owners				
Share options expensed	-	329	-	329
Share options exercised	277	(454)	-	(177)
Share options forfeited	-	(123)	-	(123)
Dividends to equity holders	-	-	(2,080)	(2,080)
Total contributions by and distributions to owners	277	(248)	(2,080)	(2,051)
Balance at June 30, 2014	37,602	1,487	46,261	85,350
Balance at January 1, 2015	37,784	1,074	51,177	90,035
Profit and total comprehensive income for the period	-	-	5,558	5,558
Contributions by and distributions to owners				
Stock options expensed	-	354	-	354
Dividends to equity holders	-	-	(2,213)	(2,213)
Total contributions by and distributions to owners	-	354	(2,213)	(1,859)
Balance at June 30, 2015	37,784	1,428	54,522	93,734

The notes on pages 17 to 25 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

Unaudited

For the six-month period ended June 30

In thousands of US dollars

Note	2015	2014
Cash flows from operating activities		
Profit for the year	5,558	6,261
Adjustments for:		
Depreciation	3,216	3,240
Amortization of intangible assets	1,083	1,080
Gain on disposal of property, plant and equipment	11	-
Finance costs	916	1,205
Interest on other assets	(22)	-
Change in fair value of interest swaps	63	138
Unrealized foreign exchange gains	(395)	(256)
Share-based payment expense	6,019	1,198
Share options forfeited	-	(123)
SRED tax credits	(149)	(366)
Current income tax expense	2,632	1,846
Deferred income tax expense	(504)	495
Post-retirement benefits expense	(16)	(18)
	18,412	14,700
Change in inventories	3,528	(7,025)
Change in trade and other receivables	(4,555)	(10,059)
Change in prepayments	(1,121)	(688)
Change in trade and other payables	(3,832)	(3,384)
Net change in non-cash or working capital balances	(5,980)	(21,156)
Interest paid	(823)	(1,147)
Income tax paid	(1,860)	(413)
Net cash provided by (used in) operating activities	9,749	(8,016)
Cash flows used in investing activities		
Acquisition of property, plant and equipment	(2,955)	(1,397)
Acquisition of intangible assets	(139)	(200)
Acquisition of other investments	-	(560)
Net cash used in investing activities	(3,094)	(2,157)
Cash flows from financing activities		
Repayment of borrowings	(2,658)	(2,708)
Tax paid on exercise of share options	-	(177)
Dividends paid	(2,078)	(2,099)
Net cash used in financing activities	(4,736)	(4,984)
Net increase (decrease) in cash and cash equivalents	1,919	(15,157)
Cash and cash equivalents at January 1	13,139	16,904
Effect of exchange rate fluctuations on cash held	(36)	(8)
Cash and cash equivalents at June 30	15,022	1,739

The notes on pages 17 to 25 are an integral part of these condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

For the three-month and six-month periods ended June 30, 2015 and 2014

(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 six-month periods ended June 30, 2015 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 15).

NOTE 2 BASIS OF PREPARATION

Statement of compliance

The condensed consolidated interim financial statements should be read in conjunction with the Company's 2014 audited annual consolidated financial statements and accompanying notes.

SunBoss Chemical Ltd. ("SunBoss") was incorporated in December 2007 as a joint venture under the laws of Ontario to source chemicals used in the rubber compounding business for both internal consumption and external sales to customers. On January 1, 2015, the Company acquired the remaining 50% interest in the joint venture, SunBoss for \$nil proceeds. The financial results of SunBoss are included in the financial disclosure provided in respect of the Rubber Compounding business.

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

The condensed consolidated financial statements were authorized for issue by the Board of Directors on August 11, 2015.

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, 2014 and have been applied consistently to all periods presented in these condensed consolidated financial statements.

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

New Standards and interpretations not yet adopted

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

On December 18, 2014 the IASB issued amendments to IAS 1 "Presentation of Financial Statements" ("IAS 1") as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). These amendments will not require any significant change to current practice, but should facilitate improved financial statements disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Company is currently assessing the impact of these amendments on its consolidated financial statements.

NOTE 4 TRADE AND OTHER RECEIVABLES

In thousands of US dollars

	June 30, 2015	December 31, 2014
Trade receivables	46,315	41,860
Less: allowance for doubtful accounts	(362)	(254)
Other receivables	45,953	41,606
	1,163	940
	47,116	42,546

Impairment losses

The aging of trade receivables at the reporting date was:

In thousands of US dollars	June 30, 2015		December 31, 2014	
	Gross	Impairment	Gross	Impairment
Within terms	38,354	-	34,601	-
Past due 0-30 days	4,605	-	4,687	-
Past due 31-120 days	3,356	(362)	2,572	(254)
	46,315	(362)	41,860	(254)

AirBoss of America Corp.

Notes to CFS (cont'd)

The continuity of the allowance for doubtful accounts was:

<i>In thousands of US dollars</i>	June 30, 2015	December 31, 2014
Balance at January 1	(254)	(181)
Impairment loss recognized	(187)	(337)
Collected	-	22
Revise estimate/write-off	79	242
Balance	(362)	(254)

NOTE 5 INVENTORIES

<i>In thousands of US dollars</i>	June 30, 2015	December 31, 2014
Raw materials and consumables	22,010	24,701
Work in progress	2,857	2,705
Finished goods	8,539	8,297
Inventory in transit	3,407	3,968
Other inventory	856	1,065
	37,669	40,736
Provisions	(1,542)	(1,081)
	36,127	39,655

The adjustment of provisions was recorded in cost of sales in the respective periods as a charge of \$461 in 2015 and a recovery of \$86 in 2014.

NOTE 6 OTHER ASSETS

<i>In thousands of US dollars</i>	Convertible promissory Note	Share purchase loan	10% equity investment	Other	Total
Balance at January 1, 2014	-	-	313	155	468
Convertible promissory note	550	-	-	-	550
Share purchase loans	-	1,774	-	-	1,774
Accrued interest	32	2	-	-	34
Effect of movements in exchange rates	-	(50)	-	(9)	(59)
Balance at December 31, 2014	582	1,726	313	146	2,767
Accrued interest	22	9	-	-	31
Interest paid	-	(9)	-	-	(9)
Effect of movements in exchange rates	-	(124)	-	(7)	(131)
Balance at June 30, 2015	604	1,602	313	139	2,658

NOTE 7 LOANS AND BORROWINGS

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

During the second quarter of 2015, the Company accrued \$325 and paid \$311 interest expense on the term loan; year-to-date \$652 and \$651 respectively.

NOTE 8 DERIVATIVES NOT MEETING HEDGE ACCOUNTING CRITERIA

Foreign exchange hedge

At June 30, 2015, the Company had contracts to sell US \$20,074 in 2015 for CAD \$24,100 (December 31, 2014: sell US \$10,460 in 2015 for CAD \$12,000). The fair value of these contracts, representing a loss of \$779 (2014: loss of \$116) is recorded on the statement of financial position included in trade and other payables, including derivatives and changes in fair value are recorded on the statement of income as expense.

Notes to CFS (cont'd)

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 second quarter of 2015, the net interest expense of the swap agreement was \$44 and \$45 was paid; (2014: \$47 and \$47 was paid); year-to-date \$91 and \$106 was paid (2014: \$64 and \$56 was paid).

For the period ended December 31, 2014, the fair value of this agreement, representing a loss of \$76, was recorded on the statement of financial position included in loans and borrowings and changes in fair value are recorded on the statement of income 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 it does not intend to hold for trading or speculative purposes.

NOTE 9 PROVISIONS

<i>In thousands of US dollars</i>	Site restoration	Stock appreciation rights	Other	Total
Balance at January 1, 2014	94	804	-	898
Provisions accrued during the year	-	2,318	211	2,529
Foreign exchange	(8)	(166)	(17)	(191)
Balance at December 31, 2014	86	2,956	194	3,236
Provisions accrued during the year	-	5,110	554	5,664
Foreign exchange	(6)	(302)	(15)	(323)
Balance at June 30, 2015	80	7,764	733	8,577

No legal provisions are recognized at June 30, 2015 and June 30, 2014.

Stock Appreciation Rights Plan

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

As at June 30, 2015, 609,000 rights were outstanding with a reference price ranging between CAD \$5.16 and CAD \$5.25. Since 2012, no stock appreciation rights were granted to named executive officers ("NEOs"), directors or 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 will be 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.

During the second quarter of 2015, the Company recognized as employee costs \$3,464 (2014: \$619); year-to-date \$5,110 (2014: \$714) relating to the SAR Plan, as a result of the appreciation in share price.

Equity Compensation Plan

During 2014 and 2015, the Company committed to providing certain executives with additional compensation based on the performance of 217,000 shares in aggregate, under a restricted stock units plan. These incentive grants were made pursuant to the terms and conditions of the 2015 Omnibus Plan, approved by the shareholders at the Annual General and Special Meeting of Shareholders held on May 14, 2015. During the second quarter of 2015, nil (year-to-date: 153,000) contingent equity grants were issued. The contingent grants will vest in three years and have no performance requirements. At June 30, 2015 the Company has recognized as employee costs \$442 (2014: \$155); year-to-date \$554 (2014: \$155) related to the plan.

NOTE 10 CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital and Contributed Surplus

Issued share capital is as follows:

<i>In thousands of shares</i>	June 30, 2015	December 31, 2014	June 30, 2014
January 1	22,999	22,748	22,748
Exercise of share options	-	251	76
Balance	22,999	22,999	22,824

AirBoss of America Corp.

Notes to CFS (cont'd)

Issuance of common shares

During the second quarter of 2015 and year-to-date, nil options were exercised. During the second quarter of 2014, 181,250 options were exercised (year-to-date: 251,250 options) on a cash-less basis for 57,496 shares (year-to-date 75,794 shares).

Capital and other components of equity

Contributed surplus

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

Share options outstanding as at June 30

	2015	2014
Share options granted and outstanding	1,048	1,138

During the second quarter of 2015, nil options were granted (year-to-date 70,000). No share-based payment rewards were granted during the first half of 2014. No options were exercised or forfeited during the second quarter of 2015. 251,250 options were exercised during the first half of 2014 and 93,750 options were forfeited.

Share option expense

Inputs for measurement of grant date fair values

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

Fair value of share options and assumptions

<i>In Canadian dollars</i>	March 31, 2015
Fair value at grant date	\$4.12
Share price at grant date	15.46
Exercise price	15.40
Expected volatility (weighted average volatility)	34.6%
Option life (expected weighted average life)	5 years
Expected dividends	1.55%
Risk-free interest rate (based on government bonds)	0.73%

During the period, the Company recognized as employee costs \$192, (2014: \$197); year-to-date \$354 (2014: \$206) relating to option grants in general and administrative expenses of the statement of income. In the first quarter of 2014, this included a recovery of \$123 related to the forfeiture of 93,750 options.

Dividends

Dividends on common shares held during the quarter were as follows:

Shareholder of record at:	2015		2014	
	\$CAD/share	Date Paid	\$CAD/share	Date Paid
June 30	0.06	July 16, 2015	0.05	July 17, 2014
April 2	0.06	April 16, 2015	0.05	April 17, 2014

The dividend payable at June 30, 2015 was \$1,102 (2014: \$1,069).

NOTE 11 EARNINGS PER SHARE

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

For the three and six month periods ended June 30 <i>In thousands of US dollars, except share amounts outstanding, per share amounts in US dollars</i>	Three-month		Six-month	
	2015	2014	2015	2014
Numerator for basic and diluted earnings per share:				
Net income	2,378	3,780	5,558	6,261
Denominator for basic and diluted earnings per share:				
Basic weighted average number of shares outstanding	22,999	22,785	22,999	22,768
Dilution effect of stock options	543	202	496	191
Diluted weighted average number of shares outstanding	23,542	22,987	23,495	22,959
Net income per share:				
Basic	0.10	0.17	0.24	0.28
Diluted	0.10	0.16	0.24	0.27

At June 30, 2015, nil options (2014: nil) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

The average market value of the Company's shares for 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 12 INCOME TAXES

For the three and six month periods ended June 30 <i>In thousands of US dollars</i>	Three-month		Six-month	
	2015	2014	2015	2014
<u>Current tax expense:</u>				
Current period	1,470	1,146	2,650	1,777
Adjustment for prior period	(18)	69	(18)	69
	1,452	1,215	2,632	1,846
<u>Deferred tax expense:</u>				
Origination and reversal of temporary differences	(504)	65	(485)	573
Adjustment for prior periods	(19)	(71)	(19)	(78)
	(523)	(6)	(504)	495
Total income tax expense	929	1,209	2,128	2,341

NOTE 13 GOVERNMENT ASSISTANCE

During the quarter, AEP recognized grants of \$110 (2014: \$694); year-to-date \$273 (2014: \$975) to support certain initiatives which were offset against expenses.

During the quarter, Rubber Compounding recognized \$2 (2014: \$nil); year-to-date \$2 (2014: \$nil) to support certain initiatives which were offset against expenses.

During the first six months of 2015 and 2014, Automotive recognized no grants.

Scientific research and investment tax credits of \$99 (2014: \$367) were recognized in the quarter; year-to-date \$149 (2014: \$367); R&D costs were reduced accordingly. In addition \$213 (2014: \$39); year-to-date \$213 (2014: \$39) was recognized as a reduction to capital assets in respect of provincial tax credits.

NOTE 14 POST RETIREMENT BENEFITS

June 30 <i>In thousands of US dollars</i>	Executive Supplemental Plan		Other benefit plan	
	2015	2014	2015	2014
The amounts recognized in the income statement are as follows:				
Post-retirement benefits expense	-	-	(16)	(18)
Interest cost	22	54	10	11
Exchange differences	(89)	(8)	(45)	(2)
Expense (recovery)	(67)	46	(51)	(9)

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

Defined Contribution Plan

In 2014, AirBoss Flexible Products ("Flexible") maintained a simplified employee defined contribution pension plan ("SEP") covering substantially all U.S. employees not covered by collective bargaining agreements. Flexible's contributions were discretionary and were not to exceed 5% of the total eligible compensation earned by plan participants during the year. For the period ended June 30, 2014, the expense for this plan was approximately \$113.

Beginning January 1, 2015, this SEP plan was replaced with a 401K plan sponsored by Flexible for all of their employees not covered by collective bargaining agreements. Total estimated contribution to this plan for the fiscal year is \$300. For the quarter ended June 30, 2015, the expense for this plan was \$74, year-to-date \$268.

Multi-Employer Pension Plan

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

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Group chooses to stop participating in the multi-employer plan, the Group may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

During the quarter, the Company made contributions of \$71, (2014: \$63); year-to-date \$130 (2014: \$119) to the multi-employer pension plan. The unfunded vested benefit ratio was 46.38% at December 31, 2014. The Steel Workers Pension Trust is in a net deficit at December 31, 2014 and the Company's portion of the deficit is unknown. The collective bargaining agreements that require contributions to the multi-employer plan are set to expire December 31, 2017. The collective bargaining agreement requires that the Group contributes \$0.40 for each hour worked by eligible employees during the preceding wage month. Total estimated contribution to this plan for the fiscal year is \$250.

NOTE 15 SEGMENTED INFORMATION

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO/Chairman & President review internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments and corporate activities:

- Rubber Compounding. Includes manufacturing and distributing rubber compounds and distributing rubber compounding related chemicals.
- AEP. Includes manufacturing and distributing protective wear primarily for CBRN hazards and semi-finished rubber related products.
- Automotive. Includes manufacturing and distributing anti-vibration and noise dampening automotive parts.
- Corporate. Includes corporate activities and certain unallocated costs.

Notes to CFS (cont'd)

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

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 primarily within North America with respect to its rubber compound and automotive products and globally with respect to its rubber protective products and has production facilities in Canada and the United States.

Information about reportable segments Three months ended June 30	Rubber Compounding		AEP		Automotive		Unallocated Corporate Costs		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<i>In thousands of US dollars</i>										
Segment revenue	35,682	44,882	12,034	13,474	36,011	31,949	-	-	83,727	90,305
Inter-segment revenue	(6,256)	(10,080)	(507)	(752)	-	-	-	-	(6,763)	(10,832)
External revenues	29,426	34,802	11,527	12,722	36,011	31,949	-	-	76,964	79,473
Depreciation and amortization	887	1,007	515	563	719	669	9	6	2,130	2,245
Finance cost	682	670	(6)	(6)	-	-	(270)	(39)	406	625
Reportable segment profit before income tax	3,972	2,556	783	1,734	3,543	2,693	(4,991)	(1,994)	3,307	4,989
Income tax expense	2,124	1,118	211	596	96	114	(1,502)	(619)	929	1,209
Net income	1,848	1,438	572	1,139	3,448	2,579	(3,490)	(1,376)	2,378	3,780
Reportable segment assets ¹	68,127	71,941	36,979	36,873	70,690	68,356	15,049	11,736	190,845	188,906
Reportable segment liabilities ¹	16,510	19,350	7,421	8,875	11,920	11,443	61,260	59,203	97,111	98,871
Capital expenditures ²	594	327	455	344	812	479	7	-	1,868	1,150

Information about reportable segments Six months ended June 30	Rubber Compounding		AEP		Automotive		Unallocated Corporate Costs		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<i>In thousands of US dollars</i>										
Segment revenue	73,843	85,354	23,983	22,336	69,818	62,681	-	-	167,644	170,371
Inter-segment revenue	(12,510)	(17,894)	(1,314)	(1,588)	-	-	-	-	(13,824)	(19,482)
External revenues	61,333	67,460	22,669	20,748	69,818	62,681	-	-	153,820	150,889
Depreciation and amortization	1,773	1,922	1,095	1,047	1,414	1,338	17	13	4,299	4,320
Finance cost	1,360	1,355	(2)	(2)	-	-	(442)	(148)	916	1,205
Reportable segment profit before income tax	6,312	3,490	1,328	1,260	6,697	5,750	(6,651)	(1,898)	7,686	8,602
Income tax expense	3,648	2,238	380	554	286	441	(2,186)	(892)	2,128	2,341
Net income	2,663	1,252	947	706	6,411	5,309	(4,463)	(1,006)	5,558	6,261
Reportable segment assets ¹	68,127	71,941	36,979	36,873	70,690	68,356	15,049	11,736	190,845	188,906
Reportable segment liabilities ¹	16,510	19,350	7,421	8,875	11,920	11,443	61,260	59,203	97,111	98,871
Capital expenditures ²	769	542	979	451	1,255	602	91	2	3,094	1,597

¹ Comparative figures as at December 31, 2014.

² Comparative figures as at June 30, 2014.

AirBoss of America Corp.

Notes to CFS (cont'd)

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.

<i>In thousands of US dollars</i>	Revenues		Revenues		Non-current assets		Non-current assets	
	Three months ended June 30		Six months ended June 30		June 30		December 31, 2014	
	2015	2014	2015	2014	2015	2014		
Canada	15,751	17,727	30,946	34,046	43,437	40,761		44,235
United States	55,706	56,009	111,702	107,162	44,799	46,910		46,143
Other countries	5,507	5,737	11,172	9,681	-	-		-
	76,964	79,473	153,820	150,889	88,236	87,671		90,378

Major customers

Revenues from one customer represent approximately 9% (2014: 11%) of the Group's total revenues. Five customers represented 33% (2014: 32%) of the Company's total revenues.

Major Products

<i>In thousands of US dollars</i>	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Rubber Compounding				
Tolling	1,597	1,369	2,881	2,866
Mixing	27,829	33,433	58,452	64,594
	29,426	34,802	61,333	67,460
AEP				
Industrial	6,143	6,766	12,213	13,546
Defense	5,384	5,956	10,456	7,202
	11,527	12,722	22,669	20,748
Automotive				
	36,011	31,949	69,818	62,681
Total	76,964	79,473	153,820	150,889

NOTE 16 RELATED PARTIES

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 and CEO of the Company. The monthly lease rate approximates fair market rental value. During the quarter, the Company paid rent for the corporate office of \$36 (2014: \$41), year-to-date \$73 (2014: \$83).

During the quarter, the Company paid fees for the use of a facility in South Carolina of approximately \$5 (2014: \$6), year-to-date \$11 (2014: \$11) to a company in which the Chairman and CEO is an officer.

In addition, during the quarter, Flexible paid rent of \$263 (2014: \$262), year-to-date \$525 (2014: \$525) to a company controlled by an employee of the Company to utilize its facilities. The lease expires in 2019.

During 2014, the Company invested \$550 in the form of a convertible promissory note in a company for which the Deputy Chairman is the Chairman. This note can be convertible to an equity interest under the following conditions: (1) if the company has completed "qualified financing" raising \$1 million in gross proceeds (excluding the company's loan), the note converts automatically; (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 (2014: \$10), year-to-date \$22 (2014: \$10) 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.

During the fourth quarter of 2014, the Company provided share purchase loans of CAD \$1,000 each to both the President and Chief Financial Officer to purchase the Company's stock. The promissory notes are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or November 24, 2019. The promissory notes bear interest at 1% annually with full recourse and interest is due and payable semi-annually. 201,000 shares of the Company having a fair value of \$3,589 were pledged as collateral. At June 30, 2015, the promissory notes of \$1,602, including accrued interest of \$9 were included in other assets. Interest of \$9 during the quarter was paid.

NOTE 17 ACQUISITION OF IMMEDIATE RESPONSE TECHNOLOGIES, LLC

On July 24, 2015, the Company, through its wholly-owned subsidiary AirBoss-Defense Inc., acquired all of the membership interests of Immediate Response Technologies, LLC ("IRT"), a privately-owned U.S. company that is a leading provider of personal protection and safety products for CBRN hazards, as well as communicable diseases and respiratory threats for the individual, First Responder, Medical, Military, Law Enforcement, Fire and Industrial communities.

The acquisition was made for initial cash consideration of \$36,770, subject to working capital adjustments, with additional earn-out payments in a combination of cash and equity having a maximum aggregate value of up to approximately \$25,000, subject to the achievement of specific performance objectives over the 60 month period following the close of the transaction. The acquisition consideration and related expenses will be financed with cash on hand and debt, with the Company utilizing a new \$38,000 term loan under its existing debt facilities.

Acquisition-related costs

The Company incurred acquisition-related costs of \$503 on legal fees and due diligence costs in the quarter ended June 30, 2015. These costs have been included in "administrative expenses".

Identifiable assets acquired and liabilities assumed

The following table summarizes the recognized amounts of identifiable assets acquired and liabilities assumed at the acquisition date. Provisional amounts have been recognized as the measurement period for the acquisition remains open until the valuation of identifiable assets and liabilities is confirmed.

Purchase price allocation

The purchase price has been allocated on the basis of management's preliminary estimates of fair values as follows:

Date of investment July 1, 2015

Percentage acquired 100%

(US in thousands)

Consideration:	
Cash	36,770
Transaction expenses	(202)
Adjustments to working capital	(199)
Total Consideration:	36,369
Preliminary fair value of assets acquired:	
Accounts receivable	1,012
Inventory	3,778
Prepaid expenses	955
Property and equipment	4,500
Customer relationships	12,250
Total Assets	22,495
Preliminary value of liabilities assumed:	
Accounts payable	(1,162)
Provisions	(278)
Total liabilities	(1,440)
Net assets acquired	21,055
Excess of purchase price over fair value of identifiable assets acquired	15,314

The goodwill is attributable mainly to the skills and technical talent of IRT's work force, proprietary technology and the synergies expected to be achieved from integrating IRT into the Company's existing business. Elected values determined tax deductibility of goodwill.

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