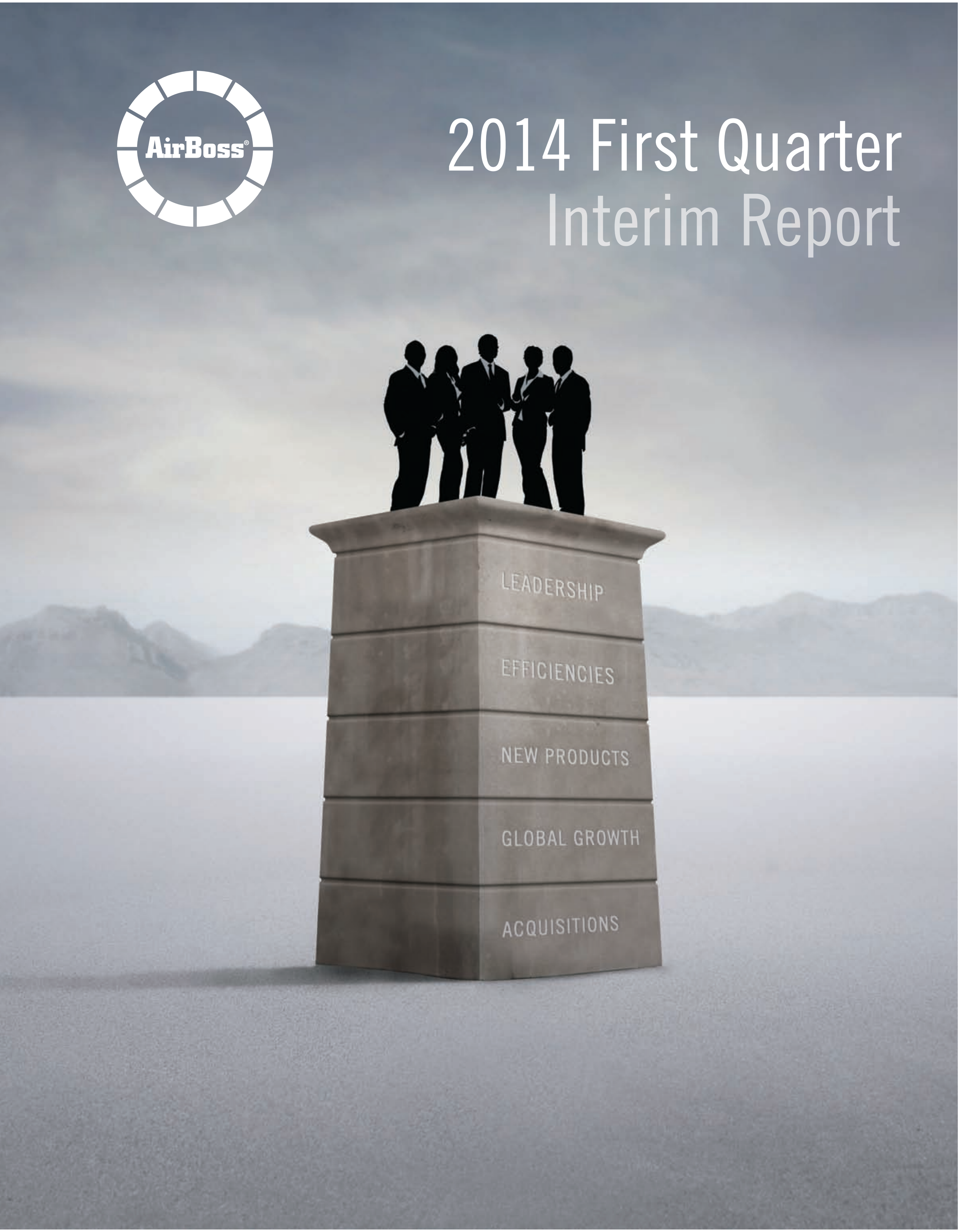
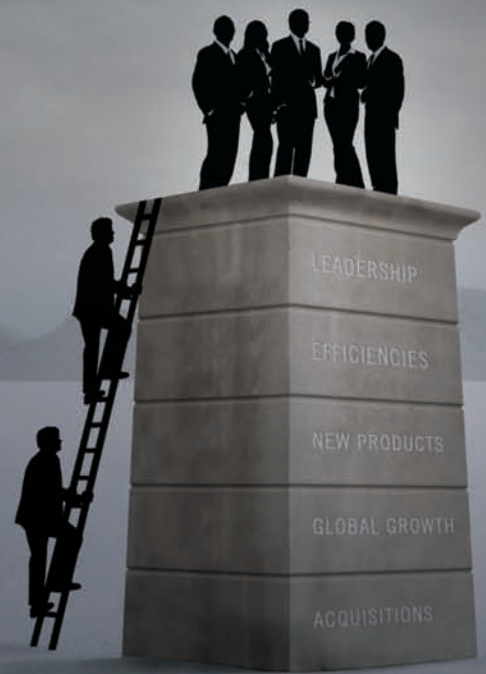
# 2014 First Quarter Interim Report




AIRBOSS OF AMERICA

## Corporate Profile




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

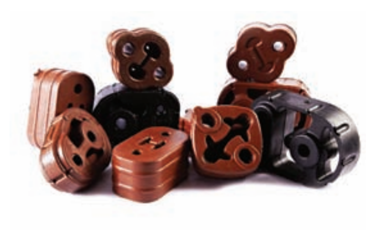
AirBoss Rubber Compounding is the second largest rubber compound manufacturer in North America. AirBoss Rubber Compounding has capacity to supply 250 million pounds of compound annually to a broad range of customers in the transportation, defense, and industrial markets in North America and Europe.

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 1st Quarter versus 2013 1st Quarter Highlights

- Net sales increases by 31%
- EPS increased to $0.11 USD, up 22%
- EBITDA up by 45%

### Overview

The 1st Quarter 2014 was positively impacted by the Flexible Products automotive business acquisition. Revenue increased by $17 million over 2013. This strong performance helped offset the weather related impact to Rubber Compounding and the overall decline in the Defense business.

### AirBoss Rubber Compounding

After eliminating intercompany sales to Flexible Products, sales volume, expressed in pounds shipped, declined by 2% while sales dollars decreased by $4 million (10.8%) compared to the same period in 2013. Most of the volume decline was due to a very difficult winter that negatively affected February shipments. Raw material price changes were minimal compared to the fourth quarter of 2013 but were approximately 5% less than in the first quarter of 2013; this accounted for the majority of the percentage drop in sales dollars as these savings were passed through to customers.

Sales volume is expected to increase during 2014. We forecast Q2 sales to increase between 10% and 20% compared to Q1 and should continue through the remainder of the year. In anticipation of these increased demands, the Company has recently increased senior personnel in the technical sales/product development area.

The refurbishment of the North Carolina facility is showing positive benefits, increased volumes are contributing to positive financial results.

### AirBoss Engineered Products

Defense Product sales of CBRN overshoes decreased by $3.7 million as a contract with the Department of Defense (“DoD”) expired and no renewal has been awarded yet. The remainder of sales related to this contract will be shipped over the rest of the year and there is an opportunity to increase CBRN product sales by penetrating non-traditional geographical markets. Glove sales declined $1.0 million while sales of other products were stable.

Long term, the greatest opportunities lie with new products under development. Preliminary test and validation is now underway on initial samples, and the first production moulds for the Low Burden Mask should be ordered in the second quarter with final product validation to be complete in early 2015.

Industrial Products sales decreased by 17.5% ($1.4 million) primarily as a result of decreases in military tire demand and fire boots. AEP also experienced a decline in sales to a larger customer, but these are expected to recover in the next quarter. As well, the shift by a major customer to begin supplying its raw material requirements in a partially mixed form to AEP for final processing continues to impact the business.

# To Our Shareholders

## Automotive

The Flexible acquisition added sales of $30.7 million in the quarter. The Company has begun to realize synergies from the acquisition, which will continue as we move forward with the integration of Flexible. Management implemented a new production policy that improved overall plant efficiency by 4% in March. The business will see the benefit of this change going forward.

Automotive is expected to continue to perform strongly for the remainder of the year through the introduction of mid-year new product launches. Flexible will also benefit from forecasted continued strength in the US automotive manufacturing sector.

## Outlook

Volumes for the major tire tolling sector over the next two quarters are expected to increase slightly due to a strengthening US tire market. The North Carolina facility is seeing the benefit of this additional volume resulting in positive financial results. New export business for mining products is expected to gradually increase throughout the remaining three quarters. New markets where we have experienced recent success, such as oil and gas, continue to perform well and we are optimistic about the improvement of all other sectors over 2013.

Various initiatives are underway to improve margins by more efficient purchasing, productivity efforts and the introduction of new products. While raw material markets are subject to rapid change, there are no areas of immediate concern. The next quarter's purchasing and pricing are completed and we anticipate stability in this area. This being the case, working capital requirements should be similar to 2013 with the exception of some normal seasonal fluctuations. We continue to aggressively pursue options to accelerate growth both organically and through additional strategic acquisitions.

**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 May 7, 2014 and should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements and Notes for the three-month period ended March 31, 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 first 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's 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

### Q1 2014 versus Q1 2013

- Net sales increases by 31%
- EPS increased to $0.11 USD, up 22%
- EBITDA up by 45%

## Selected Financial Information

| Three months ended March 31 | **2014** | 2013 |
|---|---|---|
| **Financial results:** | | |
| Net sales | **71,416** | 54,359 |
| Net income | **2,481** | 2,046 |
| Net income per share | | |
| – Basic | **0.11** | 0.09 |
| – Diluted | **0.11** | 0.09 |
| EBITDA (non-IFRS financial measure) | **6,268** | 4,314 |
| Net cash used in operating activities | **(9,923)** | (138) |
| Dividends declared per share | **0.05** | 0.05 |
| Capital expenditures | **447** | 1,146 |
| **Financial position:** | **March 31, 2014** | December 31, 2013 |
| Total assets | **182,215** | 185,772 |
| Term loan and other debt | **55,394** | 57,113 |
| Shareholders' equity | **82,528** | 81,140 |
| Outstanding shares | **22,766,414** | 22,748,116 |
| **22,766,414 at May 7, 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:

| | **2014** | 2013 |
|---|---|---|
| EBITDA: | | |
| Net Income | **2,481** | 2,046 |
| Finance costs | **580** | 192 |
| Depreciation and amortization of intangible assets | **2,075** | 1,431 |
| Income tax expense | **1,132** | 645 |
| EBITDA | **6,268** | 4,314 |

## RESULTS OF OPERATIONS – First Quarter 2014 compared to 2013

### NET SALES

Net Sales increased by 31.4% in 2014 compared to 2013 primarily from the positive impact of Flexible, partially offset by declines in both Rubber Compounding and Engineered Products.

| | | Rubber Compounding | AEP | Automotive | Total |
|---|---|---|---|---|---|
| Net Sales | **2014** | **32,658** | **8,026** | **30,732** | **71,416** |
| | 2013 | 40,257 | 14,102 | N/A | 54,359 |
| Increase (decrease) $ | | (7,599) | (6,076) | 30,732 | 17,057 |
| Increase (decrease) % | | (18.9) | (43.1) | N/A | 31.4 |

### Rubber Compounding

After eliminating intercompany sales to Flexible Products, sales volume, expressed in pounds shipped, declined by 2.1% and sales dollars decreased by $3,942 compared to the same period in 2013.Tolling rates and volumes were both higher than in 2013 and Rubber Compounding experienced gains across its primary tolling accounts. These gains were offset by declines across the major sectors of the non-tolling business. Raw material price fluctuations were minimal compared to the fourth quarter of 2013 but were approximately 5% less than in the first quarter of 2013 and this accounted for a similar percentage drop in sales dollars as these savings were passed through to customers.

Sales volumes are expected to increase in the second quarter of 2014 as the backlog of orders from Q1 are filled as well as from gains in market share in the oil & gas, conveyor belts and OTR retreading segments. For the remainder of the year we expect further demand increases to be driven by additional major tire business.

### AirBoss Engineered Products

AirBoss Engineered Products ("AEP") sales decreased by $6,076 compared to the same period in 2013; of this a decrease of $8,081 was related to lower volumes offset by an increase of $2,005 from pricing and product mix.

Sales of CBRN overshoes and gloves declined $3,749 and $971 respectively, primarily as a result of the expiration of a contract with the Department of Defense ("DoD") where no renewal has been awarded yet, marginally offset by an increase of $86 in other products. There is an opportunity to increase CBRN product sales in 2014 in non-traditional geographic markets and in the longer term with new products currently under development.

Industrial Products sales decreased by 17.5% ($1,442) primarily as a result of decreases in military tire demand and fire boots. AEP also experienced a decline in sales to a larger customer, but these are expected to recover in the next quarter. As well, the shift by a major customer to begin supplying its raw material requirements in a partially mixed form to AEP for final processing continues to impact the business.

### Automotive

AirBoss Flexible Products ("AFP" or "Flexible") had sales of $30,732 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

Gross margin for the period ended March 31, 2014 was $9,450 (2013: $6,492), an increase of $2,958 from 2013. This was primarily attributable to improved margin on tolling and the impact of AFP.

| | | Rubber Compounding | AEP | Automotive | Total |
|---|---|---|---|---|---|
| Gross Margin | **2014** | **3,299** | **1,064** | **5,087** | **9,450** |
| | 2013 | 3,501 | 2,991 | N/A | 6,492 |
| Increase (decrease) $ | | (202) | (1,927) | 5,087 | 2,958 |
| % of net sales | **2014** | **10.1** | **13.3** | **16.6** | **13.2** |
| | 2013 | 8.7 | 21.2 | N/A | 11.9 |

### Rubber Compounding

Gross margin for Rubber Compounding decreased by $202 in the period compared to 2013 primarily as a result of lower sales. The gross margin percentage increased as compared to the same period in 2013 through improved productivity initiatives, other efficiency improvements due to the completion of capital projects, as well as better control over raw material purchasing and a favourable product mix.

### AirBoss Engineered Products

Gross margin for AirBoss Engineered Products decreased by $1,927 compared to 2013. This was primarily due to a change in product mix in defense products and lower sales.

### Automotive

Gross margin in Automotive was $5,087. AFP benefitted from positive prices and product mix changes as well as favourable material costs.

## OPERATING EXPENSES

Operating expenses increased for the period by $1,648 primarily due to expenses at Flexible.

| | | Rubber Compounding | AEP | Automotive | Unallocated Corporate Costs | Total |
|---|---|---|---|---|---|---|
| Operating Expenses | **2014** | **1,680** | **1,535** | **2,030** | **12** | **5,257** |
| | 2013 | 1.959 | 1,476 | N/A | 174 | 3,609 |
| Increase (decrease) $ | | (279) | 59 | 2,030 | (162) | 1,648 |
| % of net sales | **2014** | **5.1** | **19.1** | **6.6** | **N/A** | **7.4** |
| | 2013 | 4.9 | 10.5 | N/A | N/A | 6.6 |

### Rubber Compounding

For the quarter ended March 31, 2014 Rubber Compounding expenses decreased by $279. This was primarily driven by a decline in sales commissions, salaries and benefits and associated recruiting fees as a result of some departmental realignments of $143, as well as decreases in travel, promotional and advertising expenses and other general administrative expenses of $137.

### AirBoss Engineered Products

For the quarter ended March 31, 2014 AEP's expenses increased by $59.

The increases are primarily related to new hires supporting research and development and the expanded geographical sales representation of $120. This was partially offset by government grants of $40 and decreases in other expenses of $21.

### Automotive

Automotive's operating expenses were $2,030 and largely in line with expectations. Included in this, AFP incurred $116 in recruitment and other related employee expenses as well as $77 of acquisition related expenses.

### Unallocated Corporate Costs

Unallocated corporate costs decreased $168. Foreign exchange gains were $711 compared to a gain of $252 in 2013. General and administrative expenses increased by $319 due to increased salary and payroll costs. This increase was partially offset by share options forfeited of $123 along with additional employee costs of $95 related to the stock appreciation rights plan.

## RESULTS OF OPERATIONS – First Quarter 2014 compared to 2013

### FINANCE COST

| | | Rubber Compounding | AEP | Automotive | Corporate Costs | Total |
|---|---|---|---|---|---|---|
| Finance cost | **2014** | **685** | **4** | **-** | **(109)** | **580** |
| | 2013 | 102 | 67 | N/A | 23 | 192 |
| Increase (decrease) $ | | 583 | (63) | - | (132) | 388 |
| % of net sales | **2014** | **2.1** | **0.1** | **N/A** | **N/A** | **0.8** |
| | 2013 | 0.3 | 0.5 | N/A | N/A | 0.4 |

Finance costs in 2014 were $580 for the quarter (2013: $192) 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 $1,132 (2013: $645) or an effective income tax rate for the quarter of 31.3% (24.0% in 2013). The statutory rate in Canada in 2013 was 25%. The increase in the effective tax rate was primarily driven by Automotive profit which is subject to higher US tax rates.

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.

### NET INCOME AND EARNINGS PER SHARE

Net income in 2014 amounted to $2,331 compared to $2,046 in 2013 primarily attributable to the positive impact by the Flexible Products acquisition. The basic and fully diluted net earnings per share were $0.11 (2013- $0.09) and $0.11 (2013- $0.09) based on basic and fully diluted shares outstanding of 22,749,156 (2013-22,498,247) and 22,966,032 (2013- 22,699,617) respectively.

### QUARTERLY INFORMATION

| Quarter Ended | Net Sales | Net Income (loss) | Net Income (loss) per share Basic | Diluted |
|---|---|---|---|---|
| **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 |
| September 30, 2012 | 57,901 | 1,507 | 0.06 | 0.06 |
| June 30, 2012 | 66,784 | 1,621 | 0.07 | 0.07 |

**Items impacting comparability of quarters**

- All quarters in 2012 were impacted by lower Defense sales from US budgetary constraints and by lower Rubber Compounding sales relating to economic weaknesses in energy generating sectors. Non-recurring charges of $721 were recorded in the quarter June, 2012.
- The fourth quarter of 2013 was impacted by transaction costs incurred in the acquisition of Flexible Products, increased stock compensation and offset by the contribution to earnings of Flexible.

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

The 1st Quarter 2014 was positively impacted by the Flexible Products acquisition. Revenue increased by $17 million over 2013. The strong automotive performance helped offset the weather related impact 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); $280 are drawn against this facility at March 31, 2014.

In the quarter ended March 31, 2014, $9,923 (2013: $138) of cash was used in operations, $447 (2013: $1,146) was used for investing activities and $2,482 (2013: $1,158) was used in financing activities. Cash and cash equivalents decreased by $12,852 from $16,904 to cash balance of $4,069 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 $435 primarily related to Flexible Products partly offset by lower income in Rubber Compounding and AEP
- Higher finance costs of $388 as a result of additional loans after acquiring Flexible
- Higher tax expense of $487
- Net increase in unrealized foreign exchange gains of $408
- Net increase in employee costs of $44 relating to additional costs recognized for the stock appreciation rights plan and stock option plan was offset by forfeitures during the period
- Cash used for working capital was $14,296 (2013: $3,464) for the quarter ended March 31, 2014

Accounts Receivable increased $6,814 of which, $5,337 increase in Automotive products consistent with increased sales, $3,335 increase in Rubber Compounding due to extended credit terms with certain customers and partial offset by the decrease in Engineered Products brought about by lower sales. 83% of outstanding receivables are within credit terms compared to 50% at December 31, 2013, Automotive seeing the biggest improvement.

Inventory at Rubber Compounding has increased by $1,650 due to timing of purchase deliveries, pounds on hand are consistent with first quarter of 2013. At the end of the first quarter of 2014, AEP had built up inventory for shipments in the second and third quarters of 2014, accounting for their increase in inventory of $1,424. Inventory of Automotive has increased $1,043 from December 31, 2013 to March 31, 2014 reflecting the increased volume in sales.

Prepaid expenses increased $148 reflecting higher corporate prepayments at March 31, 2014 compared to the prior year.

Income tax paid was $587, $48 lower compared to 2013 from the timing of required remittances and lower taxable income.

The Company paid interest of $640 during the quarter.

### Investing Activities

**Property, Plant and Equipment**

In 2014, Rubber Compounding invested $33 to support growth in its North Carolina's facility and $34 towards health and safety. $67 was invested to support growth in its Kitchener's facility and $47 to replace manufacturing equipment.

AEP invested $29 to replace industrial products machinery and equipment and to support product research, $12 to support growth, and $8 for cost saving initiatives. AirBoss-Defense invested $58 to support growth.

Automotive invested $123 in property, plant and equipment.

**Intangible assets**

The Company invested $156 (2013: $85) in existing software for over-all improvements to reporting, purchasing and costing systems.

### Financing activities

At March 31, 2014, AirBoss had $280 drawn against its operating facility.

During the quarter, the required principal repayments of $1,356 (2013: $166) were made pursuant to the loan agreement. The unused line of credit at March 31, 2014 was $39.7 million (2013: $34.5 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 $1,069 during the quarter (2013: $1,130). No shares were purchased for cancellation under the Normal Course Issuer Bid during the quarter and all of fiscal year 2013.

**Government assistance**

During the first quarter of 2014, AEP recognized grants of $281 to support certain initiatives (2013: $251) which were offset against expenses.

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

No scientific research and investment tax credits were recognized in the first quarter of 2013 and 2014.

**Dividends**

A quarterly dividend of $0.05 per share was declared on March 19, 2014 and paid April 17, 2014. Total annual dividends declared during 2013 were $0.20 per common share.

**Outstanding shares**

As at May 7, 2014 the Company had 22,766,414 common shares 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 period, the Company paid rent for the corporate office of $42 (2013: $45).

During the period, the Company paid fees for the use of a facility in South Carolina of approximately $5 (2013: $7) 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 period was $263.The lease provides for monthly payments equivalent to an annual rental of $1,050 and expires in 2019.

## FINANCIAL INSTRUMENTS

### Foreign exchange contract

During the quarter, the Company entered into forward contracts to sell US $9 million between May and August 2014 for CAD $10 million. There were no forward contracts outstanding as of 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 first quarter of 2014, the Company accrued $271 and paid $352 for the USD LIBOR. The cost of the swap agreement was $9 and was paid in March 2014.

For the period ended March 31, 2014, the fair value of this agreement, representing a loss of $62, is recorded on the statement of financial position included in loans and borrowings and recorded on the statement of income as interest expense.

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, 2013 and have been applied consistently to all periods presented in the condensed consolidated financial statements.

In the first quarter 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.

There is no material impact on the Group's basic or diluted EPS or the total operating, investing and financing cash flows for the three months ended March 31, 2014 and 2013.

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

### CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

### OUTLOOK

Volumes for the major tire tolling sector over the next two quarters are expected to increase slightly due to a strengthening US tire market. The North Carolina facility is seeing the benefit of this additional volume resulting in positive financial results. New export business for mining products is expected to gradually increase throughout the remaining three quarters. New markets where we have experienced recent success, such as oil and gas, continue to perform well. All other sectors are expected to improve over 2013.

Automotive is expected to continue to perform strongly for the remainder of the year through the introduction of mid-year new product launches. Flexible will also benefit from forecasted continued strength in the US automotive manufacturing sector.

Various initiatives are underway to improve margins by more efficient purchasing, productivity efforts and the introduction of new products. While raw material markets are subject to rapid change, there are no areas of immediate concern. The next quarter's purchasing and pricing are completed and we anticipate stability in this area. This being the case, working capital requirements should be similar to 2013 with the exception of some normal seasonal fluctuations. We continue to aggressively pursue options to accelerate growth both organically and through additional strategic acquisitions.

May 7, 2014

| | |
|---|---|
| **P.Gren Schoch** | **Wendy Ford** |
| Chairman and Chief Executive Officer | Chief Financial Officer |

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

For the three month periods ended March 31, 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 March 31, 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 May 7, 2014

# Condensed Consolidated Statement of Financial Position

Unaudited

| *As at:*<br>*In thousands of US dollars* | *Note* | **March 31, 2014** | December 31, 2013 |
|---|---|---|---|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | **4,069** | 16,904 |
| Trade and other receivables | *5* | **49,460** | 42,633 |
| Prepaid expenses | | **2,409** | 2,277 |
| Inventories | *6* | **38,037** | 33,920 |
| **Total current assets** | | **93,975** | 95,734 |
| Non-current assets | | | |
| Property, plant and equipment | | **54,152** | 55,418 |
| Intangible assets | | **33,624** | 33,987 |
| Other assets | | **464** | 468 |
| Deferred income tax assets | | **-** | 165 |
| **Total non-current assets** | | **88,240** | 90,038 |
| **Total assets** | | **182,215** | 185,772 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Loans and borrowings | *8,9* | **5,466** | 5,440 |
| Trade and other payables, including derivatives | | **36,212** | 39,789 |
| Employee benefits | | **2,267** | 2,330 |
| Current income taxes payable | | **299** | 255 |
| **Total current liabilities** | | **44,244** | 47,814 |
| Non-current liabilities | | | |
| Loans and borrowings | *8* | **49,928** | 51,673 |
| Employee benefits | *15* | **466** | 489 |
| Provisions | | **956** | 898 |
| Deferred income tax liabilities | | **4,093** | 3,758 |
| **Total non-current liabilities** | | **55,443** | 56,818 |
| **Total liabilities** | | **99,687** | 104,632 |
| EQUITY | | | |
| Share capital | *11* | **37,395** | 37,325 |
| Contributed surplus | *11* | **1,599** | 1,735 |
| Retained earnings | | **43,534** | 42,080 |
| **Total equity** | | **82,528** | 81,140 |
| **Total liabilities and equity** | | **182,215** | 185,772 |

*The notes on pages 16 to 24 are an integral part of these condensed consolidated financial statements.*

# Condensed Consolidated Statement of Profit and Comprehensive Income

Unaudited

| **For the three-month period ended March 31**<br>*In thousands of US dollars* | *Note* | **2014** | 2013 |
|---|---|---|---|
| Revenue | | **71,416** | 54,359 |
| Cost of sales | | **(61,966)** | (47,867) |
| **Gross profit** | | **9,450** | 6,492 |
| General and administrative expenses | | **(4,219)** | (2,399) |
| Selling and marketing expenses | | **(1,202)** | (1,007) |
| Research and development expenses | *14* | **(533)** | (461) |
| Other income (expense) | | **697** | 258 |
| **Operating expenses** | | **(5,257)** | (3,609) |
| **Results from operating activities** | | **4,193** | 2,883 |
| Finance costs | *8,15* | **(580)** | (192) |
| **Profit before income tax** | | **3,613** | 2,691 |
| Income tax expense | *13* | **(1,132)** | (645) |
| **Profit and total comprehensive income for the period** | | **2,481** | 2,046 |
| Earnings per share | | | |
| Basic | *12* | **0.11** | 0.09 |
| Diluted | *12* | **0.11** | 0.09 |

*The notes on pages 16 to 24 are an integral part of these condensed consolidated financial statements.*

# Condensed Consolidated Statement of Changes in Equity

Unaudited

| | Attributable to equity holders of the Company | | | |
|---|---|---|---|---|
| *In thousands of US dollars* | 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 | - | - | 2,046 | 2,046 |
| **Contributions by and distributions to owners** | | | | |
| Stock options expensed | - | 42 | - | 42 |
| Share options exercised | 235 | (93) | (4) | 138 |
| Dividends to equity holders | - | - | (1,098) | (1,098) |
| Total contributions by and distributions to owner | 235 | (51) | (1,102) | (918) |
| Balance at March 31, 2013 | 37,325 | 1,874 | 40,916 | 80,115 |
| Balance at January 1, 2014 | 37,325 | 1,735 | 42,080 | 81,140 |
| Profit and total comprehensive income for the period | - | - | 2,481 | 2,481 |
| **Contributions by and distributions to owners** | | | | |
| Stock options expensed | - | 113 | - | 113 |
| Share options exercised | 70 | (126) | - | (56) |
| Share options forfeited | - | (123) | - | (123) |
| Dividends to equity holders | - | - | (1,027) | (1,027) |
| Total contributions by and distributions to owners | 70 | (136) | (1,027) | (1,093) |
| Balance at March 31, 2014 | 37,395 | 1,599 | 43,534 | 82,528 |

*The notes on pages 16 to 24 are an integral part of these condensed consolidated financial statements.*

# Condensed Consolidated Statement of Cash Flows

Unaudited

| **For the three-month period ended March 31**<br>*In thousands of US dollars* | *Note* | **2014** | 2013 |
|---|---|---|---|
| Cash flows used in operating activities | | | |
| Profit for the year | | **2,481** | 2,046 |
| | | | |
| **Adjustments for:** | | | |
| Depreciation | | **1,557** | 1,334 |
| Amortization of intangible assets | | **518** | 97 |
| Finance costs | *8* | **580** | 192 |
| Change in fair value of interest swap | | **62** | - |
| Unrealized foreign exchange (gains)/losses | | **(712)** | (304) |
| Equity-settled share-based payment expense | | **114** | 42 |
| Share options forfeited | | **(123)** | - |
| Current income tax expense | *13* | **631** | 1,018 |
| Deferred income tax expense | *13* | **501** | (373) |
| Post-retirement benefits expense | *15* | **(9)** | (11) |
| | | **5,600** | 4,041 |
| | | | |
| Change in inventories | | **(4,117)** | 1,390 |
| Change in trade and other receivables | | **(6,814)** | (4,945) |
| Change in prepayments | | **(148)** | 85 |
| Change in trade and other payables | | **(3,313)** | 6 |
| Change in provisions | | **96** | - |
| Net change in non-cash or working capital balances | | **(14,296)** | (3,464) |
| | | | |
| Interest paid | | **(640)** | (176) |
| Income tax paid | | **(587)** | (539) |
| **Net cash used in operating activities** | | **(9,923)** | (138) |
| | | | |
| Cash flows used in investing activities | | | |
| Acquisition of property, plant and equipment | | **(291)** | (1,061) |
| Acquisition of intangible assets | | **(156)** | (85) |
| **Net cash used in investing activities** | | **(447)** | (1,146) |
| | | | |
| Cash flows used in financing activities | | | |
| Repayment of borrowings | | **(1,356)** | (166) |
| Proceeds from exercise of share options | | **-** | 146 |
| Tax paid on exercise of share options | | **(57)** | (8) |
| Dividends paid | *11* | **(1,069)** | (1,130) |
| **Net cash used in financing activities** | | **(2,482)** | (1,158) |
| | | | |
| **Net decrease in cash and cash equivalents** | | **(12,852)** | (2,442) |
| | | | |
| Cash and cash equivalents at January 1 | | **16,904** | 1,247 |
| Effect of exchange rate fluctuations on cash held | | **17** | (35) |
| **Cash and cash equivalent (Bank indebtedness) at March 31** | | **4,069** | (1,230) |

*The notes on pages 16 to 24 are an integral part of these condensed consolidated financial statements.*

# Notes to Condensed Consolidated Financial Statements

**For the three-month period ended March 31, 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 period ended March 31, 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 15 ).

## 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 May 7, 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 quarter 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.

There is no material impact on the Group's basic or diluted EPS or the total operating, investing and financing cash flows for the three months ended March 31, 2014 and 2013.

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

## 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's assets and liabilities are not revalued.

### Acquisition-related costs

During the period, the Company incurred additional acquisition-related costs of $122 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. Provisional amounts have been recognized as the measurement period for the acquisition remains open until the valuation of identifiable assets and liabilities is confirmed.

| (In thousands of US dollars) | |
|---|---|
| **Consideration:** | |
| Cash | |
| **Total Consideration:** | 57,856 |
| **Preliminary 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 |
| **Preliminary 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 | 10,065 |

## NOTE 5 TRADE AND OTHER RECEIVABLES

| **December 31**<br>*In thousands of US dollars* | **March 31, 2014** | December 31,2013 |
|---|---|---|
| Trade receivables | **49,103** | 42,068 |
| Less: allowance for doubtful accounts | **(241)** | (181) |
| | **48,862** | 41,887 |
| Other receivables | **598** | 746 |
| | **49,460** | 42,633 |

**Impairment losses**

The aging of trade receivables at the reporting date was:

| | **March 31, 2014** | | December 31,2013 | |
|---|---|---|---|---|
| **December 31**<br>*In thousands of US dollars* | **Gross** | **Impairment** | Gross | Impairment |
| Within terms | **40,755** | **-** | 21,097 | - |
| Past due 0-30 days | **4,663** | **-** | 17,115 | - |
| Past due 31-120 days | **3,685** | **(241)** | 3,856 | (181) |
| | **49,103** | **(241)** | 42,068 | (181) |

The continuity of the allowance for doubtful accounts was:

| *In thousands of US dollars* | **March 31, 2014** | December 31,2013 |
|---|---|---|
| Balance at January 1 | **(181)** | (99) |
| Impairment loss recognized | **(60)** | (287) |
| Collected | **-** | 186 |
| Revise estimate/write-off | **-** | 19 |
| Balance | **(241)** | (181) |

## NOTE 6 INVENTORIES

| *In thousands of US dollars* | **March 31, 2014** | December 31, 2013 |
|---|---|---|
| Raw materials and consumables | **24,624** | 21,149 |
| Work in progress | **2,852** | 2,550 |
| Finished goods | **6,593** | 7,564 |
| Inventory in transit | **3,844** | 2,326 |
| Other inventory | **1,112** | 1,433 |
| | **39,025** | 35,022 |
| Provisions | **(988)** | (1,102) |
| | **38,037** | 33,920 |

The adjustment of provisions was recorded in cost of sales in the respective years as a recovery of $115 in 2014 and a recovery of $47 in 2013.

## NOTE 7 OTHER INVESTMENTS

| *In thousands of US dollars* | **March 31, 2014** | December 31, 2013 |
|---|---|---|
| **Non-current investments** | | |
| Balance at January 1 | **468** | 116 |
| Business Acquisition (Note 4) | **-** | 313 |
| Purchases | **-** | 47 |
| Effect of movements in exchange rates | **(4)** | (8) |
| Balance | **464** | 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.

## NOTE 9 DERIVATIVES NOT MEETING HEDGE ACCOUNTING CRITERIA

### Foreign exchange hedge

At March 31, 2014, the Company had contracts to sell US $9,000 between May and August 2014 for CAD $9,931. The fair value of these contracts, representing a loss of $21, is recorded on the statement of financial position included in trade and other payables, including derivatives and recorded on the statement of income as other income (expense). There were no forward contracts outstanding at 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 first quarter of 2014, the Company accrued $271 and paid $352 for the USD LIBOR. The cost of the swap agreement was $9 and was paid in March 2014.

For the period ended March 31, 2014, the fair value of this agreement, representing a loss of $62, is recorded on the statement of financial position included in loans and borrowings and recorded on the statement of income as interest expense.

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.

## NOTE 10 PROVISIONS

| *In thousands of US dollars* | Site restoration | Stock appreciation rights | Total |
|---|---|---|---|
| Balance at January 1, 2013 | 100 | - | 100 |
| Provisions used during the year | - | 804 | 804 |
| Provisions reversed during the year | - | - | - |
| Foreign exchange | (6) | - | (6) |
| Balance at December 31, 2013 | 94 | 804 | 898 |
| Provisions used during the year | **-** | **95** | **95** |
| Provisions reversed during the year | **-** | **-** | **-** |
| Foreign exchange | **(4)** | **(33)** | **(37)** |
| Balance at March 31, 2014 | **90** | **866** | **956** |

No legal provisions are recognized at March 31, 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 March 31, 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 $95 (2013: $nil) relating to the SARS plan.

## NOTE 11 CAPITAL AND OTHER COMPONENTS OF EQUITY

### Share Capital and Contributed Surplus

Issued share capital is as follows:

| *In thousands of shares* | **March 31, 2014** | March 31, 2013 | December 31, 2013 |
|---|---|---|---|
| January 1 | **22,748** | 22,493 | 22,493 |
| Exercise of share options | **18** | 60 | 255 |
| Balance | **22,766** | 22,553 | 22,748 |

### Issuance of common shares

During the first quarter of 2014, 70,000 options (2013: 30,000 options) were exercised on a cash-less basis for 18,298 shares (2013: 10,323 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 ending 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 quarter 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.

### 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 March 31

| *In thousands of shares* | **2014** | 2013 |
|---|---|---|
| Share options granted and outstanding | **1,318,750** | 1,482,500 |

70,000 options were exercised during the first quarter of 2014 and 93,750 options were forfeited.

No share-based payment rewards were granted during the first quarter of 2014.

### Share option expense

During the period, the Company recognized as employee costs a recovery of $9 (2013: $42 expense) relating to prior year option grants in general and administrative expenses of the statement of income. This included a recovery of $123 related to the forfeiture of 93,750 options.

### Dividends

Dividends on common shares were paid in the quarter to shareholders of record as follows:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| **Shareholder of record at:** | **$CAD** | **Date Paid** | $CAD | Date Paid |
| March 31 | **0.05** | **April 17, 2014** | 0.05 | April 18, 2013 |

The dividend payable at March 31, 2014 was $1,029 (2013: $1,098).

## NOTE 12 EARNINGS PER SHARE

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

| **March 31**<br>*In thousands of US dollars except per share amounts* | **2014** | 2013 |
|---|---|---|
| Numerator for basic and diluted earnings per share: | | |
| Net income | **2,481** | 2,046 |
| Denominator for basic and diluted earnings per share: | | |
| Basic weighted average number of shares outstanding | **22,749** | 22,498 |
| Dilution effect of stock options | **217** | 202 |
| Diluted weighted average number of shares outstanding | **22,966** | 22,700 |
| Net income per share: | | |
| Basic | **0.11** | 0.09 |
| Diluted | **0.11** | 0.09 |

At March 31, 2014, nil options (2013: 796,000) 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

| **For the period ended March 31**<br>*In thousands of US dollars* | **2014** | 2013 |
|---|---|---|
| Current tax expense: | | |
| Current period | **631** | 1,017 |
| Adjustment for prior period | **-** | 1 |
| | **631** | 1,018 |
| Deferred tax expense: | | |
| Origination and reversal of temporary differences | **508** | (342) |
| Adjustment for prior periods | **(7)** | (31) |
| | **501** | (373) |
| Total income tax expense | **1,132** | 645 |

## NOTE 14 GOVERNMENT ASSISTANCE

During the first quarter of 2014, AEP recognized grants of $281 to support certain initiatives (2013: $251) which were offset against expenses.

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

No scientific research and investment tax credits were recognized in the first quarter of 2013 and 2014.

## NOTE 15 POST RETIREMENT BENEFITS

| | Executive Supplemental Plan | | Other benefit plan | |
|---|---|---|---|---|
| **March 31**<br>*In thousands of US dollars* | **2014** | 2013 | **2014** | 2013 |
| The amounts recognized in the income statement are as follows: | | | | |
| Post-retirement benefits expense | **-** | - | **(9)** | (11) |
| Interest cost | **27** | 23 | **5** | 7 |
| Exchange differences | **(89)** | (52) | **(19)** | (12) |
| Expense (recovery) | **(62)** | (29) | **(23)** | (16) |

The current service charge was included in "general and administrative expense", the interest cost is included in "finance expense" and exchange differences in "other income (expense)" in the income statement.

### Defined Contribution Plan

AirBoss's 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 March 31, 2014, the expense for this plan was approximately $46.

For the period ended March 31, 2014, the Company made contributions of $56 to the 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 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.

| **March 31** | 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 | **40,472** | 43,273 | **8,862** | 15,376 | **30,732** | - | **-** | - | **80,066** | 58,649 |
| Inter-segment revenue | **(7,814)** | (3,016) | **(836)** | (1,274) | **-** | - | **-** | - | **(8,650)** | (4,290) |
| External revenues | **32,658** | 40,257 | **8,026** | 14,102 | **30,732** | - | **-** | - | **71,416** | 54,359 |
| Reportable segment profit before income tax | **934** | 1,441 | **(474)** | 1,448 | **3,057** | - | **96** | (198) | **3,613** | 2,691 |
| Reportable segment assets[1] | **70,982** | 71,084 | **35,186** | 35,908 | **72,599** | 68,323 | **3,448** | 10,457 | **182,215** | 185,772 |
| Reportable segment liabilities[1] | **17,740** | 19,113 | **8,188** | 8,404 | **11,542** | 12,630 | **62,218** | 64,485 | **99,687** | 104,632 |
| Depreciation and amortization | **915** | 830 | **484** | 587 | **669** | - | **7** | 14 | **2,075** | 1,431 |
| Finance cost | **685** | 102 | **4** | 67 | **-** | - | **(109)** | 23 | **580** | 192 |
| Income tax expense | **1,120** | 451 | **(42)** | 367 | **327** | - | **1,273** | (174) | **1,132** | 644 |
| Capital expenditures[2] | **215** | 737 | **107** | 407 | **123** | - | **2** | 2 | **447** | 1,146 |

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

[2] Comparative figures as at March 31, 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.

| | **March 31, 2014** | | March 31, 2013 | December 31, 2013 |
|---|---|---|---|---|
| *In thousands of US dollars* | **Revenues** | **Non-current assets** | Revenues | Non-current assets |
| Canada | **16,319** | **41,444** | 16,906 | 42,327 |
| United States | **51,153** | **47,307** | 36,674 | 47,711 |
| Other countries | **3,944** | **-** | 779 | - |
| | **71,416** | **88,751** | 54,359 | 90,038 |

### Major customers

Revenues from one customer represent approximately 11% (2013: 14%) of the Group's total revenues. Five customers represented 31% (2013: 39%) of the Company's total revenues.

### Major Products

| *In thousands of US dollars* | **2014** | 2013 |
|---|---|---|
| Rubber Compounding: | | |
| Tolling | **1,497** | 962 |
| Mixing | **31,161** | 39,295 |
| | **32,658** | 40,257 |
| AEP: | | |
| Industrial | **6,780** | 8,223 |
| Defense | **1,246** | 5,879 |
| | **8,026** | 14,102 |
| Automotive: | **30,732** | N/A |

## 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 period, the Company paid rent for the corporate office of $42 (2013: $45).

During the period, the Company paid fees for the use of a facility in South Carolina of approximately $5 (2013: $7) 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 period was $263.The lease provides for monthly payments equivalent to an annual rental of $1,050 and expires in 2019.

## NOTE 18 SUBSEQUENT EVENTS

Subsequent to the first 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.

## Offices

### Canada

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President and COO:
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