Second Quarter Interim Report 2009

AirBoss of America Corp.

1 Operations

2 Letter to Shareholders

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

11 Consolidated Financial Statements

16 Notes to Consolidated Financial Statements

AirBoss of America
Operations

AirBoss of America Corp. is one of North America's largest custom compounding companies. We develop, manufacture, and sell high-quality proprietary rubber-based products offering enhanced performance and productivity to transportation, defense and industrial markets. AirBoss has a capacity to supply 250 million pounds of rubber annually to a diverse group of rubber manufacturers. We are dedicated to unequalled excellence in the manufacturing of our high performance proprietary rubber-based products by providing the stability, ingenuity and capability our customers demand.

Rubber Compounding
Manufactures custom compounds from natural and synthetic rubber gum, binding agents, and chemicals. Uses state of the art equipment, technical staff, and strong customer focus to achieve consistent on-time service customers can depend on.

Military and Industrial Products
Manufacturer of protective wear for military and first response applications. Manufactures extruded, calendered, cushion gum, and compression moulded rubber products.

To Our Shareholders

AirBoss-Defense

AirBoss-Defense sales for the six-month period have increased by 20% while EBIT has increased by 158% to $8.1 million compared to the same period in 2008. The increased profitability is due to an increase in sales of the Company's CBRN ("Chemical, Biological, Radiological and Nuclear") protective wear, increased manufacturing efficiency due to higher volumes and a favourable exchange rate on US dollar denominated sales.

Sales in the second half of the year are forecasted to be slightly higher as significant orders for gas masks and CBRN fireboots will be partially shipped prior to year end. We also anticipate higher shipments of gloves and overshoes.

Due to the increase in demand, the Company will be expanding the production capacity of injection molded gloves by adding a new facility in Burlington, Vermont. It is scheduled to be operational in early 2010 and will be expanded shortly thereafter when the next generation CBRN overboot is adopted. Manufacturing in the US will also shield the Company from a greater portion of the future exchange fluctuations.

AirBoss Rubber Compounding

The second quarter was a difficult one for the industry with volumes remaining generally low industry-wide resulting in significant excess capacity and highly competitive pricing. The Company addressed the situation by:

- Reducing inventory levels by over $25 million since December 31, 2008 and eliminating operating bank loans associated with this business;
- Selling of the high-priced 2008 raw material inventory. This was completed by June 30, 2009;
- Increasing manufacturing efficiency through major equipment initiatives;
- Significantly reducing breakeven volume levels by eliminating redundant costs.

We had hoped that the above actions would have been completed by mid second quarter. Actual completion was not until the end of the quarter, however, and accordingly the business returned to profitability in July, 2009.

Reducing raw material purchases, which are almost exclusively made in US dollars, partially eliminated one of our natural foreign exchange hedges temporarily. This had a negative impact in the quarter due to the rising Canadian dollar.

Share repurchase

During the quarter, the Company purchased back 166,400 shares under its normal Course Issuer Bid program for $0.4 million.

Outlook

The recovery of the rubber compounding industry is underway but the rate of the improvement is difficult to predict. While there are always improvements to be made, much of the difficult work was completed in the first half of the year. With the final disposal of high cost raw materials, margins were returned to traditional levels and the business generated acceptable profits in July, 2009. Order lead times are at the shortest in recent history and competition for these orders will be high over the remainder of the year. There will also be, however, opportunities to consolidate within the industry to provide greater opportunities to exploit additional markets while reducing overall costs and increasing profitability.

AirBoss-Defense will continue to grow over the next 18 months. During that period, we will be opening production facilities in the US, introducing the next generation CBRN overshoe and identifying and pursuing opportunities to increase the protection product line.

The Division is slightly ahead of both sales and profitability goals for the six-month period and we anticipate an even stronger second half. The Company has reduced the exchange risk hedging its estimated net US dollar defense product receipts by selling US dollars forward. At the end of June, there were US $11 million in forward contracts outstanding at an average exchange rate of $0.81 which expire in 2009 and US $12 million expiring in 2010 at an average rate of $0.88.

With both businesses set to perform better in the second half, we anticipate a much improved bottom line performance to the end of the year.

P.G. Schoch
Chairman

R.L. Hagerman
President and CEO

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of AirBoss of America Corp. ("AirBoss" or the "Company") for the three and six-month periods ended June 30, 2009 have been prepared as of August 12, 2009 and should be read in conjunction with the unaudited interim period Consolidated Financial Statements and Notes prepared in accordance with Canadian generally accepted accounting principles. It should also be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2008 and the related annual report. All tabular dollar amounts are shown in thousands of Canadian dollars unless otherwise specified. Additional information regarding the Company, including its Annual Information Form, can be found at SEDAR at www.sedar.com and at the Company's website at www.airbossofamerica.com

Forward-Looking Statements – Certain statements included herein, including those that express management's expectations or estimates of future developments or AirBoss' future performance, constitute "forward-looking statements" within the meaning of applicable securities laws. Words such as "may", "could" "expects", "anticipates", "forecasts", "plans", "intends" or similar expressions are intended to identify forward-looking statements.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management at the time the statements are made, are inherently subject to significant business, economic and competitive uncertainties and contingencies. AirBoss cautions that such forward-looking statements involve known and unknown risks, uncertainties and other risks that may cause AirBoss' actual financial results, performance, or achievements to be materially different from its estimated future results, performance or achievements expressed or implied by those forward-looking statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements, including without limitation: changes in accounting policies and methods including uncertainties associated with critical accounting assumptions and estimates; AirBoss' ability to maintain existing customers or develop new customers in light of increased competition; cyclical trends in the tire and automotive, construction, mining, retail and rail transportation industries; sufficient availability of raw materials at economical costs; weather conditions affecting raw materials, production and sales; potential product liability and warranty claims; its dependence on key customers; equipment malfunction; changes in the value of the Canadian dollar relative to the US dollar; ability to obtain financing on acceptable terms; environmental damage caused by it and non-compliance with environmental laws and regulations; changes in tax laws and potential litigation; and the impact of general economic conditions.

This list is not exhaustive of the factors that may affect any of AirBoss' forward-looking statements. Investors are cautioned not to put undue reliance on forward-looking statements. All subsequent written and oral forward-looking statements attributable to AirBoss or persons acting on its behalf are expressly qualified in their entirety by this notice. Whether as a result of new information, future events or otherwise, AirBoss disclaims any intent or obligation to update publicly these forward-looking statements. Risks and uncertainties about AirBoss' business are more fully discussed under the heading "Risk Factors" section of the Company's annual report on pages 21 to 23.

Highlights

The current economic environment continues to impact sales and profitability of our rubber compounding business which has been negatively impacted by uncertainty in demand, commodity prices and the effect the economic downturn has had on its customers. The impact of these conditions was partially offset by the significant increase in profitability of our defense products. Through working capital management, the Company has prudently reduced its borrowings and debt service costs.

We continue to seek out new markets, product offerings, operational efficiency and acquisition opportunities to mitigate this economic risk and enhance shareholder value. We will continue to monitor our policies and procedures with respect to granting credit and we will manage our capital expenditures and working capital to further improve our liquidity position.

During the quarter, the Company purchased back 166,400 shares under its normal Course Issuer Bid program for $0.4 million.

On January 1, 2009, we adopted handbook section 3064, "Goodwill and intangible assets." The revised standard establishes guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. On January 1, 2009, the adoption of CICA 3064 resulted in a restatement of the opening balance sheet as follows: $0.8 million ($1.1 million in 2008) decrease in other assets relating to pre-operating costs, $0.3 million ($0.4 million in 2008) decrease in future income tax liabilities and $0.5 million ($0.7 million in 2008) decrease in retained earnings. As well, $0.7 million of software costs and $0.2 million of accumulated depreciation was reclassified to other assets.

Selected Financial Information

- All markets except defense affected by US dollar and softening economy
- Margins improved by $0.5 million from a weakening Canadian dollar relative to Q2 2008
- 166,400 shares were repurchased for $0.4 million

The average exchange rate was 1.167 for the quarter compared to 1.006 in the second quarter of last year and 1.2054 year-to-date compared to 1.007 for the same period last year.

	Three months ended June 30		Six months ended June 30	
($ thousands, except per share amounts)	**2009**	2008	**2009**	2008
		(note 1)		(note 1)
Financial results:				
Net sales	**48,545**	64,805	**101,630**	119,939
Net income from continuing operations	**(603)**	2,547	**(181)**	3,509
Net income per share				
- Basic and Diluted	**(0.03)**	0.11	**(0.01)**	0.15
EBITDA (non-GAAP financial measure)	**923**	5,805	**3,214**	9,302
Operating cash flow provided by (used in) operations	**12,041**	(3,301)	**17,200**	(1,750)
Capital expenditures	**(992)**	(1,811)	**(2,042)**	(2,382)
Dividends declared per share	**0.025**	0.025	**0.025**	0.025

($ thousands)	**June 30, 2009**	December 31, 2008
Financial Position:		
Total assets	**123,728**	156,292
Demand loan	**1,366**	17,788
Term loan and other debt	**26,849**	28,060
Shareholders' equity	**64,203**	65,166
Outstanding shares	**23,639**	23,805

Note 1: Certain prior period amounts have been restated as a result of new accounting standards implemented in 2009

Non-GAAP Financial measure

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

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

This non-GAAP measure is directly derived from the interim consolidated financial statements, but does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures presented by other issuers. The Company discloses EBITDA, a financial measurement used by interested parties and investors to monitor the ability of an issuer to generate cash from operations for debt service, financing working capital and capital expenditures and pay dividends. EBITDA is not a measure of performance under GAAP and should not be considered in isolation or as a substitute for net income under GAAP.

A reconciliation of this measure is presented below:

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2009**	2008	**2009**	2008
EBITDA:				
Income (loss) from continuing operations before income taxes	**(1,190)**	3,842	**(577)**	5,421
Net financing interest expense	**424**	632	**948**	1,339
Depreciation and amortization	**1,689**	1,331	**2,843**	2,542
EBITDA	**923**	5,805	**3,214**	9,302

RESULTS OF OPERATIONS

SALES FROM CONTINUING OPERATIONS

Sales revenues decreased by 25.1% for the quarter and 15.3% for the six-month year-to-date period primarily from lower volumes in the compounding segment. The reduction in sales was mitigated by higher sales volumes in AirBoss-Defense. The weaker Canadian dollar had a favorable impact on US dollar denominated sales compared to the same period last year.

Three months ended June 30 ($ thousands)		Rubber Compunding Operations	AEP & Other	Total
Net sales	**2009**	**31,759**	**16,786**	**48,545**
	2008	48,956	15,849	64,805
Increase (decrease) $		(17,197)	937	(16,260)
Increase (decrease) %		(35.1)	5.9	(25.1)

Six months ended June 30 ($ thousands)		Rubber Compunding Operations	AEP & Other	Total
Net sales	**2009**	**66,384**	**35,246**	**101,630**
	2008	90,340	29,599	119,939
Increase (decrease) $		(23,956)	5,647	(18,309)
Increase (decrease) %		(26.5)	19.1	(15.3)

Rubber Compounding

Sales decreased by 35% in the quarter as the Company was subject to the custom rubber compounding industry–wide reduction in demand and declining sales prices resulting from decreased worldwide rubber commodity prices. While April had showed some sign of recovery, demand in May was weak. June showed some improvement and while this continued into July the forecast is for the recovery to be upward but uneven throughout the remainder of the year.

The decline in the North American auto and industrial sectors has created significant excess capacity in the industry and highly competitive market conditions which will continue in the foreseeable future. The Company is allocating product development resources to target sectors not currently being serviced.

AirBoss Engineered Products

Sales increased by $0.9 million in the second quarter and $5.6 million or 19% compared to the same six-month period in 2008.

AirBoss-Defense sales increased by $1.1 million or 10% for the quarter and $4.4 million or 20% year-to-date over the same period in 2008. While sales prices were mainly fixed, in accordance with long term contracts, the increase in the US dollar further increased sales expressed in Canadian dollars. The increase in demand is expected to continue for the remainder of this year and 2010. The Company increased capacity during the second quarter by extending production to 3 shifts, seven days a week on certain products and is setting up a second injection molding facility in Burlington, Vermont to be operational by early 2010.

GROSS MARGIN

Gross margin for the quarter ended June 30, 2009 and 2008 was $0.9 million and $7.8 million. The compounding results were impacted by lower than anticipated volumes and a $0.4 million loss on disposal. Gross margin was also impacted by higher raw material costs, the weakening of the Canadian dollar and higher Defense sales.

Three months ended June 30 ($ thousands)		Rubber Compunding Operations	AEP & Other	Total
Gross Margin	**2009**	**(3,778)**	**4,664**	**886**
	2008	4,467	3,305	7,772
Increase (decrease) $		(8,245)	1,359	(6,886)
% net of sales	**2009**	**(11.9)**	**27.8**	**1.8**
	2008	9.1	20.9	12.00

Six months ended June 30 ($ thousands)		Rubber Compunding Operations	AEP & Other	Total
Gross Margin	**2009**	**(3,087)**	**8,954**	**5,867**
	2008	7,009	5,765	12,774
Increase (decrease) $		(10,096)	3,189	(6,907)
% net of sales	**2009**	**(4.7)**	**25.4**	**5.8**
	2008	7.8	19.5	10.7

Rubber Compounding

Gross margins continued to be impacted by the disposal of high priced raw materials. This reduced margins by in excess of $3.5 million in the quarter. Margins were also negatively impacted by the strengthening of the Canadian dollar during the period. Normally sales price currency reductions are offset by the reduction in price of US dollar purchased raw materials, however, purchases were minimal in the quarter as inventory levels were reduced. As a result, the exchange impact was exacerbated.

Normal margins were restored in July as the high priced raw materials have now been consumed and a favourable exchange variance realized. Operating costs have also been significantly reduced and the combination of this and normal raw material costs has seen a return to profitability of this business in July 2009.

Gross margins for the quarter were also negatively impacted by the one-time $0.4 million write-down of certain equipment which was replaced in our Scotland Neck facility. These changes will positively impact productivity and reduce unscheduled downtime going forward.

AirBoss Engineered Products
Gross margin at AEP increased by $1.4 million during the second quarter of 2009 compared with 2008. Increases due to the increased volumes of CBRN products and a lower Canadian dollar were partially offset by lower margins in the industrial rubber products division due to the consumption of higher priced 2008 purchased raw materials.

Margins in the second half of the year in AirBoss-Defense have been protected by forward sales contracts for US dollars, although any gains on these contracts will be shown as other income in the financial statements.

OPERATING EXPENSES

Three months ended June 30 ($ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Operating expenses	**2009**	**1,448**	**1,182**	**509**	**3,139**
	2008	1,506	980	675	3,161
Increase (decrease) $		(58)	202	(166)	(22)
% net of sales	**2009**	**4.6**	**7.0**	**N/A**	**6.5**
	2008	3.1	6.2	N/A	4.9

Six months ended June 30 ($ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Operating expenses	**2009**	**3,014**	**2,330**	**1,121**	**6,465**
	2008	2,952	2,230	1,146	6,328
Increase (decrease) $		62	100	(25)	137
% net of sales	**2009**	**4.5**	**6.6**	**N/A**	**6.4**
	2008	3.3	7.5	N/A	5.3

Rubber Compounding
Q2 2009 operating expenses were $0.1 million lower than Q2 2008 relating to decrease in manpower.

AirBoss Engineered Products
AEP operating costs reflect $0.1 million higher sales department costs to support activities and increases in various administration costs accounted for the balance of the increased costs.

Unallocated Corporate Costs
Unallocated corporate costs in the quarter reflected lower capital tax, audit fees, option expense and salary costs compared to the same quarter last year.

INTEREST, FOREIGN EXCHANGE AND OTHER INCOME

Three months ended June 30 ($ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Interest, FX & Other Income	**2009**	**(76)**	**449**	**643**	**1,016**
	2008	(663)	(121)	15	(769)
Increase (decrease) $		587	570	628	1,785
% net of sales	**2009**	**(0.1)**	**1.3**	**N/A**	**1.0**
	2008	0.7	0.4	N/A	0.6

Six months ended June 30 ($ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Interest, FX & Other Income	**2009**	**(543)**	**498**	**66**	**21**
	2008	(1,589)	(194)	758	(1,025)
Increase (decrease) $		1,046	692	(692)	1,046
% net of sales	**2009**	**(0.8)**	**1.4**	**N/A**	**0.0**
	2008	1.8	0.7	N/A	0.9

Interest expense for the three months ended June 30, 2009 was $0.4 million compared to $0.7 million for the same period in 2008. Most of this decrease is due to lower interest rates, however, the Company anticipates borrowing levels will be significantly reduced from the prior year due to deflation in rubber raw materials which will result in lower working capital requirements.

Each quarter, we incur unrealized foreign exchange gains and losses on the translation of foreign currency denominated asset and liability balances including forward contracts. The amount fluctuates from quarter to quarter and is dependent on exchange rates and the value of the net foreign assets or liabilities on hand. There was an exchange gain of $1.5 million in the current quarter compared to an exchange loss of $0.2 million in 2008. To mitigate foreign exchange gains and losses, the Company uses a combination of US dollar denominated debt and forward sales of US dollars to hedge its net foreign currency balance sheet position. In addition, the Company establishes cash-flow hedges and sells forward its expected net US dollar receipts for the year when they are reasonably predictable, such as with the Defense division. As at June 30, 2009, the Company held forward contracts to sell US dollars totaling US $34.5 million at an average rate of approximately CAD $1.17. These have been adjusted to market.

INCOME TAX EXPENSE

The Company recorded an income tax recovery in the quarter of $0.6 million or an effective income tax rate for the quarter of 49.3% (33.7% in 2008).

The Company recorded a higher effective tax rate in the second quarter of 2009 as a result of future income tax adjustments relating to exchange rates and the timing of temporary differences.

We conduct business operation in the US and in Canada. Each jurisdiction is subject to different tax rates and the Company's effective tax rate varies quarter to quarter depending on the mix and volume of business in each jurisdiction as well as the impact of incentives, non-tax-deductible expenses, and the resolution of prior period tax assessments.

DISCONTINUED OPERATIONS

The 2008 operating results relating to the sold assets of the Railway Division have been reclassified to discontinued operations.

NET INCOME AND EARNINGS PER SHARE

Net income (loss) in the second quarter of 2009 amounted to ($0.6) million and $2.8 million in 2008. The basic and fully diluted earnings per share in the quarter and year-to-date were ($0.03) (2008 - $0.11) and ($0.01) (2008 - $0.15) based on basic and fully diluted shares outstanding of 23,743 (2008-23,805) and 23,775 (2008-23,805) respectively.

QUARTERLY INFORMATION

($ thousands except per share amounts)		Net Income (Loss)		Net Income (Loss) per share	
Quarter Ended	Net Sales	Continuing	Total	Basic	Diluted
June 30, 2009	48,545	(603)	(603)	(0.03)	(0.03)
March 31, 2009	53,085	469	422	0.02	0.02
December 31, 2008 [1]	74,008	(6,949)	(6,756)	(0.28)	(0.28)
September 30, 2008	65,467	2,133	2,080	0.09	0.09
June 30, 2008	64,805	2,547	2,771	0.12	0.12
March 31, 2008	55,134	962	998	0.04	0.04
December 31, 2007	48,758	1,177	993	0.04	0.04
September 30, 2007	50,943	825	1,199	0.05	0.05

Note 1: Certain amounts have been restated as a result of new accounting standards implemented in 2009

Items impacting comparability of quarters

- The first and second quarter of 2009 were impacted by lower volumes and high raw material costs in the compounding segment as well as a loss on disposal relating to manufacturing equipment replaced in the second quarter.
- The fourth quarter of 2008 reflected a goodwill impairment charge of $7.9 million.
- The fourth quarter of 2007 included $0.7 million reduction of corporate taxes.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operations

AirBoss used $0.7 million in operating cash flows before changes in working capital in the second quarter of 2009 compared to $3.6 million in Q2 2008 primarily from lower net income and higher unrealized foreign exchange gains on US denominated debt.

Non-cash working capital

The investment in non-cash working capital relating to continuing operations decreased by $12.9 million in the quarter as follows:

Accounts receivable decreased by $1.7 million due to:

- Rubber Compounding receivables decreased by $2.1 million from lower volumes and pricing.
- AEP receivables increased $0.4 million from higher defense sales
- DSO improved by 1.2 days in the quarter and 3 days compared to June, 2008

Inventories decreased by $10.4 million due to the timing of receipts:

- Rubber Compounding inventory decreased $11.3 million by drawing down inventory on hand from December and restricting purchases. The segment has continued its lean approach to inventory management contributing to lower levels on hand.
- AEP increased its inventory by $0.9 million to support sales volume

Accounts payable increased by $3.3 million primarily relating to inventory purchases and the timing of insurance premium settlements:

- Rubber Compounding $2.9 million
- AEP $0.7 million
- Head office ($0.3) million

During the second quarter of 2009, the Company recorded current tax recoveries of $1.5 million relating to its compounding operations.

Capital expenditures

Capital expenditures for the quarter ended June 30, 2009 were $1.0 million ($1.8 million in 2008) and year-to-date, $2.0 million ($2.4 million in 2008). In 2009, the spending was as follows:

- Rubber Compounding spent $0.4 million relating to reconfiguring its downstream mills in both the first and second quarter of 2009.
- AEP incurred $0.5 million for manufacturing equipment including enhancements to an extruder for the industrial business and packaging and footwear equipment to support higher volumes in the first quarter of 2009. During the second quarter, $0.3 million was spent on tooling for injection molding and $0.2 million on various pieces of manufacturing equipment.

Other assets

During the first quarter of 2009, all the funds in escrow relating to the sale of the commercial footwear business were released. Rubber Compounding spent $0.2 million relating to system integration and enhancement initiatives in the first quarter. During the second quarter of 2009, the Company incurred $0.2 million relating to software development, of which, $0.1 million related to Rubber Compounding.

Financing

At June 30, 2009, the Company had cash on hand of $0.5 million and no drawings (2008 - $21.0 million) against its $35 million (2008 - $45 million) operating line facility.

Under the term debt facility, the Company had made its required principal repayments of $0.4 million (2008 - $0.3 million).

The Company expects to fund its 2009 operating cash requirements, including required working capital investments, capital expenditures, and scheduled debt repayments from cash on hand, cash flow from operations and committed borrowing capacity.

Commitments and contractual obligations

The Company's contractual obligations as at December 31, 2008 are described on page 19 in the Management's Discussion and Analysis of Company's 2008 Annual Report. On June 24, 2009, the Company signed a new facility lease agreement committing payments of approximately US$12,000 per month (subject to annual indexing to CPI) from September 2009 to August 2014 summarized below:

		Payments Due In					
($ thousands)	Total	2009	2010	2011	2012	2013	Thereafter
Operating leases	808	54	161	162	161	162	108

Purchase obligations include enforceable and legally binding commitments to purchase raw materials, services and capital expenditures in the normal course of business. Capital expenditures can be financed with additional drawings against a term facility.

Forward exchange contracts

During the second quarter of 2009, the Company entered into forward contracts to sell US $17.5 million at an average rate of 1.133 on a multiple delivery window forward basis. At quarter end, the Company has forward contracts to sell US $34.5 million for CAD $40.5 million to June 30, 2010.

TRANSACTIONS WITH RELATED PARTIES

The Company rents corporate office space from a company controlled by the Chairman of the Company. This lease provides for an annual rental of $90,000 payable monthly and expires in August 2012. The lease provides for the purchase of the building should certain events occur which are beyond the control of the Chairman. The annual rental of $90,000 approximated the fair market rental at the inception of the lease in 2002. Lease payments for corporate office space paid to a company controlled by the Chairman of the Company were $22,500 for the three-month period ended June 30, 2009 ($22,500 in 2008).

The Company paid dues relating to a facility in South Carolina of approximately $8,000 for the three-month period ($6,300 in 2008) to a company in which the Chairman is an officer.

The Company provided a $0.1 million share purchase loan in 2006 to an employee due June 15, 2009 bearing interest at 5% annually with full recourse and is included in the financial statements under the caption "other assets". This has been renewed under similar terms to June 15, 2012.

CHANGES IN ACCOUNTING POLICIES

Commencing January 1, 2009, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (the "CICA") as follows:

Fair value of financial assets and financial liabilities

On January 20, 2009, the CICA published EIC-173, entitled Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which provides further information on the determination of the fair value of financial assets and financial liabilities under Section 3855, entitled Financial Instruments – Recognition and Measurement. This EIC states that an entity's own credit and the credit risk of the counter-party should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This recommendation should be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after the date of issuance of the Abstract, that is January 20, 2009.

The standard is applicable to the Company for the first quarter of 2009 and has had no material impact on the results.

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets. Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets if they meet the definition of an intangible asset and if they satisfy the recognition criteria contained in the Handbook section. This section also provides further information on the recognition of internally generated intangible assets (including research and development costs).

Section 3064 carries forward the requirements of the old Section 3062, Goodwill and Other Intangible Assets with regards to the subsequent measurement of intangible assets, goodwill, and disclosure. The new section became effective on January 1, 2009 for the Company.

The standard is applicable to the Company for the first quarter of 2009 and the Company retroactively expensed start-up costs.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises for interim and annual financial statements effective January 1, 2011. The Company is evaluating the effects of adopting this standard. The key elements of AirBoss' changeover plan include:

1. **Scoping and diagnostic**

   High level analysis to:

- Assess differences between IFRS and GAAP
- Identify elective and mandatory exceptions available under IFRS 1
- Scope out potential impacts on systems and processes
- Identify impacts on business relationships including contractual arrangements

2. **Impact analysis, evaluation and design**

- Determine projected impact of adopting IFRS on financial statements and develop accounting processes
- Develop and finalize changes to systems and internal controls
- Address business activities including contractual arrangements, hedging, compensation arrangements, budgeting/forecasting
- Prepare reporting templates and training plan

3) **Implementation and Review**

- Collect and compile IFRS information for reporting
- Train staff
- Execute changes to information systems and business activities
- Communicate

The Company recently completed its scoping and diagnostic phase based on new guidance and current and proposed changes in the business. Areas that could have a potential impact include capital assets and employee future benefits. Most of the adjustments required on the transition to IFRS will be made retrospectively against opening retained earnings as of the date of the first comparative balance sheet presented. Transitional adjustments relating to standards where comparative numbers are not required will be restated as of the first day of the year of adoption.

The Company is assessing the impact on financial reporting, business processes, internal controls and information systems and will ensure a timely conversion.

Management's Responsibility for Financial Reporting

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent interim 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.

OUTLOOK

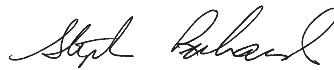
The recovery of the rubber compounding industry is underway but the rate of the improvement is difficult to predict. While there are always improvements to be made much of the difficult work was completed in the first half of the year. With the final disposal of high cost raw materials, margins were returned to traditional levels and the business generated acceptable profits in July, 2009. Order lead times are at the shortest in recent history and competition for these orders will be high over the remainder of the year. There will also be, however, opportunities to consolidate within the industry to provide greater opportunities to exploit additional markets while reducing overall costs and increasing profitability.

AirBoss-Defense will continue to grow over the next 18 months. During that period we will be opening production facilities in the US, introducing the next generation CBRN overshoe and identifying and pursuing opportunities to increase the protection product line.

The Division is slightly ahead of both sales and profitability goals for the six-month period and we anticipate an even stronger second half. The Company has reduced the exchange risk hedging its estimated net US dollar defense product receipts by selling US dollars forward. At the end of June there were US $11 million in forward contracts outstanding at an average exchange rate of $0.81 which expire in 2009 and US $12 million expiring in 2010 at an average rate of $0.88.

With both businesses set to perform better in the second half, we anticipate a much improved bottom line performance to the end of the year.

R.L. Hagerman
President and Chief Executive Officer



S.W. Richards
Vice-President Finance and CFO

Consolidated Balance Sheets

(thousands $ CDN)	June 30, 2009	December 31, 2008
	(unaudited)	(restated Note 2)
ASSETS		
Current assets:		
Accounts receivable	$ 25,286	$ 31,864
Inventories	27,569	52,849
Prepaid expenses	1,415	637
Income taxes receivable	1,735	-
Total current assets	56,005	85,350
Capital assets	52,713	53,362
Goodwill	7,182	7,182
Future income tax assets	5,924	6,105
Other assets	1,904	4,293
Total assets	$ 123,728	$ 156,292
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand loan	$ 1,366	$ 17,788
Accounts payable and accrued liabilities	18,482	28,301
Income taxes payable	-	2,503
Dividends payable	591	596
Current liabilities of discontinued operations	947	2,409
Current portion of term loan and other debt	1,470	1,513
Total current liabilities	22,856	53,110
Term loan and other debt	25,379	26,547
Future income tax liabilities	8,877	9,202
Accrued post retirement benefit liability	2,413	2,267
Total liabilities	59,525	91,126
Commitments and contingencies (Note 5)		
Shareholders' equity:		
Share capital	40,255	40,537
Contributed surplus	2,002	1,911
Retained earnings	21,946	22,718
Total shareholders' equity	64,203	65,166
Total liabilities and shareholders' equity	$ 123,728	$ 156,292

See accompanying notes to consolidated financial statements.

On behalf of the Board

Robert L. Hagerman
Director

Robert L. McLeish
Director

Consolidated Statements of Income and Retained Earnings

(unaudited) (thousands $ CDN, except per share amounts)	Three months ended June 30 2009	2008	Six months ended June 30 2009	2008
		(restated Note 2)		(restated Note 2)
NET SALES	**$ 48,545**	$ 64,805	**$ 101,630**	$ 119,939
Cost of sales	**47,247**	57,033	**95,351**	107,165
Loss on disposal	**412**	-	**412**	-
Total cost of sales	**47,659**	57,033	**95,763**	107,165
Gross margin	**886**	7,772	**5,867**	12,774
OPERATING EXPENSES				
General and administrative	**1,920**	2,088	**4,012**	4,007
Selling and marketing	**939**	801	**1,935**	1,755
Product research	**280**	272	**518**	566
Total operating expenses	**3,139**	3,161	**6,465**	6,328
Income (loss) before undernoted items	**(2,253)**	4,611	**(598)**	6,446
Other income (expense)	**(23)**	-	**153**	273
Foreign exchange gain (loss)	**1,463**	(137)	**816**	41
Interest expense	**(424)**	(632)	**(948)**	(1,339)
Interest, foreign exchange and other income	**1,016**	(769)	**21**	(1,025)
Loss attributed to non-controlling interest	**47**	-	**-**	-
Income (loss) from continuing operations, before income taxes	**(1,190)**	3,842	**(577)**	5,421
Recovery of (provision for) income taxes	**587**	(1,295)	**396**	(1,912)
Net income (loss) from continuing operations	**(603)**	2,547	**(181)**	3,509
Income from discontinued operations (net of tax)	**-**	224	**-**	260
Net income (loss)	**(603)**	2,771	**(181)**	3,769
Dividends	**(591)**	(595)	**(591)**	(595)
Change in accounting policy related to Goodwill and Intangible Assets	**-**	-	**(527)**	(704)
Retained earnings, beginning of period	**23,140**	25,816	**23,245**	25,522
Retained earnings, end of period	**$ 21,946**	$ 27,992	**$ 21,946**	$ 27,992
From net income (loss) - Basic and Diluted	**$ (0.03)**	$ 0.11	**$ (0.01)**	$ 0.15

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income

(unaudited) (thousands $ CDN)	Three months ended June 30 2009	2008	Six months ended June 30 2009	2008
		(restated Note 2)		(restated Note 2)
Net Income (loss)	**$ (603)**	$ 2,771	**$ (181)**	$ 3,769
Other comprehensive income loss - net of income tax:				
Change in foreign currency translation losses on self-sustaining foreign operations	**-**	(45)	**-**	66
Comprehensive income (loss)	**$ (603)**	$ 2,726	**$ (181)**	$ 3,835
Accumulated other comprehensive loss, beginning of period	**$ -**	$ (712)	**$ -**	$ (823)
Accumulated other comprehensive income (loss) - net of income tax	**-**	(45)	**-**	66
Accumulated other comprehensive loss, end of period	**$ -**	$ (757)	**$ -**	$ (757)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(unaudited) (thousands $ CDN)	Three months ended June 30 2009	2008 (restated Note 2)	Six months ended June 30 2009	2008 (restated Note 2)
CASH PROVIDED BY (USED IN):				
Operating Activities:				
Net income (loss) from continuing operations	**$ (603)**	$ 2,547	**$ (181)**	$ 3,509
Items not affecting cash:				
Amortization	**1,689**	1,331	**2,843**	2,542
Future income taxes	**(86)**	(320)	**(144)**	(608)
Non-controlling interest	**(47)**	(18)	**-**	-
Foreign exchange (gain) loss	**(1,796)**	(130)	**(1,208)**	95
Options expense	**91**	129	**183**	193
Post-retirement benefits expense	**73**	77	**146**	151
	(679)	3,616	**1,639**	5,882
Net change in non-cash working capital balances	**12,883**	(7,518)	**17,023**	(7,230)
Net cash provided by (used in) continuing operations	**12,204**	(3,902)	**18,662**	(1,348)
Net cash provided by (used in) discountinued operations	**(163)**	601	**(1,462)**	(402)
Cash provided by (used in) operating activities	**12,041**	(3,301)	**17,200**	(1,750)
Investing Activities:				
Purchase of capital assets	**(992)**	(1,811)	**(2,042)**	(2,382)
Proceeds on disposal of capital assets	**-**	-	**(352)**	-
Increase (decrease) in other assets	**(177)**	(109)	**3,292**	(263)
Cash provided by (used in) investing activities	**(1,169)**	(1,920)	**898**	(2,645)
Financing Activities:				
Net increase (decrease) in demand loan	**(10,147)**	5,540	**(16,422)**	5,623
Repayment of term loan	**(351)**	(319)	**(706)**	(633)
Dividends paid	**-**	-	**(596)**	(595)
NCIB purchase of share capital	**(374)**	-	**(374)**	-
Cash provided by (used in) financing activities	**(10,872)**	5,221	**(18,098)**	4,395
Increase (decrease) in cash during the period	**-**	-	**-**	-
Cash and short-term deposits at the beginning of the period	**-**	-	**-**	-
Cash and short-term deposits at the end of the period	**$ -**	$ -	**$ -**	$ -
Supplementary Cash Flow Information:				
Cash Interest paid	**$ 394**	$ 719	**$ 874**	$ 1,559
Cash income taxes remitted	**736**	148	**4,170**	577
Trade-in proceeds	**361**	-	**361**	-

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

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

	Common shares					
Six months ended June 30, 2008	Amount	Number of shares	Contributed surplus	Accumulated comprehensive loss	Retained Earnings	Total Shareholders Equity
		(000's)				
Balance, December 31, 2007	40,537	23,805	1,491	(823)	25,522	66,727
Change in accounting policy related to goodwill and intangible assets (Note 2)	-	-	-	-	(704)	(704)
As restated, January 1, 2008	40,537	23,805	1,491	(823)	24,818	66,023
Net income (loss) for the period	-	-	-	-	3,769	3,769
Dividends declared	-	-	-	-	(595)	(595)
Other comprehensive income (net of tax)	-	-	-	66	-	66
Stock option expense	-	-	193	-	-	193
Balance, June 30, 2008	40,537	23,805	1,684	(757)	27,992	69,456

Notes to Consolidated Financial Statements

Three and six months ended June 30, 2009 and 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These unaudited interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, and its joint venture over which the Company has significant control (collectively, the "Company"). Intercompany balances and transactions have been eliminated upon consolidation. The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for financial statements. However, certain additional disclosures are required for annual financial statements, and accordingly, these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2008. The unaudited interim consolidated financial statements have been prepared on a basis consistent with the policies set out in the Company's consolidated annual financial statements for fiscal 2008, except as described in Note 2. Certain comparative numbers have been reclassified to conform with the current year's presentation.

Seasonality

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

NOTE 2 CHANGES IN ACCOUNTING POLICIES

Commencing January 1, 2009, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (the "CICA") as follows:

Fair value of financial assets and financial liabilities

On January 20, 2009, the CICA published EIC-173, entitled Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which provides further information on the determination of the fair value of financial assets and financial liabilities under Section 3855, entitled Financial Instruments – Recognition and Measurement. This EIC states that an entity's own credit and the credit risk of the counter-party should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This recommendation should be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after the date of issuance of the Abstract, that is January 20, 2009.

The standard is applicable to the Company for the first quarter of 2009 and has had no material impact on the results or financial position.

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets. Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets if they meet the definition of an intangible asset and if they satisfy the recognition criteria contained in the Handbook section. This section also provides further information on the recognition of internally generated intangible assets (including research and development costs). Section 3064 carries forward the requirements of the old Section 3062, Goodwill and Other Intangible Assets with regards to the subsequent measurement of intangible assets and goodwill, and related disclosures.

This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2009 and was applied retrospectively, with restatement of prior periods. On January 1, 2009, the adoption of CICA 3064 resulted in a restatement of the opening balance sheet as follows: $0.8 million ($1.1 million in 2008) decrease in other assets relating to pre-operating costs, $0.3 million ($0.4 million in 2008) decrease in future income tax liabilities and $0.5 million ($0.7 million in 2008) decrease in retained earnings. As well, $0.7 million of software costs and $0.2 million of accumulated depreciation was reclassified to other assets.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Financial Instruments – Disclosure

In June 2009, the CICA amended Handbook Section 3862, "Financial Instruments – Disclosures" to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009. The Company is assessing the impact of these amendments on its consolidated financial statements.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises for interim and annual financial statements effective January 1, 2011. The Company is evaluating the effects of adopting this standard. The key elements of AirBoss' changeover plan include:

1. **Scoping and diagnostic**

   High level analysis to:

- Assess differences between IFRS and GAAP
- Identify elective and mandatory exceptions available under IFRS 1
- Scope out potential impacts on systems and processes
- Identify impacts on business relationships including contractual arrangements

2. **Impact analysis, evaluation and design**

- Determine projected impact of adopting IFRS on financial statements and develop accounting processes
- Develop and finalize changes to systems and internal controls

- Address business activities including contractual arrangements, hedging, compensation arrangements, budgeting/forecasting
- Prepare reporting templates and training plan

3) **Implementation and Review**

- Collect and compile IFRS information for reporting
- Train staff
- Execute changes to information systems and business activities
- Communicate

The Company recently completed its scoping and diagnostic phase based on new guidance and current and proposed changes in the business. Areas that could have a potential impact include capital assets and employee future benefits. Most of the adjustments required on the transition to IFRS will be made retrospectively against opening retained earnings as of the date of the first comparative balance sheet presented. Transitional adjustments relating to standards where comparative numbers are not required will be restated as of the first day of the year of adoption.

The Company is assessing the impact on financial reporting, business processes, internal controls and information systems and will ensure a timely conversion.

NOTE 3 SHAREHOLDERS' EQUITY

	June 30, 2009	December 31, 2008
Number of commom shares outstanding	23,639,023	23,805,423
Number of options outstanding	1,933,000	1,933,000

Stock Options
The Company did not issue any stock options during the six months ended June 30, 2009, nor were any options exercised.

Stock Based Compensation
During the second quarter ended June 30, 2009, the Company recorded stock-based compensation of $91,500 ($129,000 in 2008) relating to prior year option grants in general and administrative expenses of the statement of income. For the six-month year-to-date period, the expense was $183,000 compared to $193,000 in 2008.

Dividends
A semi-annual dividend on common shares for 2009 was paid July 23, 2009 at a rate of $0.025 per share for shareholders of record at June 30, 2009.

Normal Course Issuer Bid
In 2009, the Toronto Stock Exchange ("TSX") accepted a notice filed by the Company of its intention to establish a 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 15, 2009 and ending May 14, 2010, purchase on the TSX up to 1,823,995 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 the second quarter, the Company purchased for cancellation 166,400 of its outstanding common shares pursuant to the NCIB. As a result of this purchase, the Company recorded a reduction to stated capital and contributed surplus of $0.3 million and $0.1 million respectively.

NOTE 4 FUTURE RETIREMENT BENEFITS

During the three-month periods June 30, 2009 and 2008, the Company's future retirement benefit expenses were $73,000 and $77,000 respectively. For the six-month year-to-date period, the expense was $146,000 in 2009 compared to $151,000 in 2008.

NOTE 5 COMMITMENTS AND RELATED PARTY TRANSACTIONS

On June 24, 2009, the Company signed a new facility lease agreement committing payments of approximately US $12,000 per month (subject to annual indexing to CPI) from September 2009 to August 2014 summarized below:

	Payments Due In						
($ thousands)	Total	2009	2010	2011	2012	2013	Thereafter
June 30, 2009	808	54	161	162	161	162	108

Forward Exchange Contracts
During the second quarter of 2009, the Company entered into forward contracts to sell US $17.5 million at an average rate of 1.133 on a multiple delivery window forward basis. At quarter end, the Company has forward contracts to sell US $34.5 million for CAD $40.5 million to June 30, 2010.

Related Party Transactions
Lease payments for corporate office space paid to a company controlled by the Chairman of the Company were $22,500 for the three-month period ended June 30, 2009 ($22,500 in 2008). The Company paid dues relating to a facility in South Carolina of approximately $8,000 for the three-month period ($6,300 in 2008) to a company in which the Chairman is an officer.

The Company provided a $0.1 million share purchase loan in 2006 to an employee due June 15, 2009 bearing interest at 5% annually with full recourse and is included in the financial statements under the caption "other assets". This has been renewed under similar terms to June 15, 2012.

NOTE 6 SEGMENTED INFORMATION

	Sales excluding inter-company				
	Canada	US	Other	Total	Inter-company
Three-months ended June 2009					
Rubber Compounding Operations	11,538	20,104	117	31,759	1,479
AEP and Other	2,233	13,917	636	16,786	3,762
Total	13,771	34,021	753	48,545	5,241
Three-months ended June 2008					
Rubber Compounding Operations	19,441	28,967	548	48,956	1,017
AEP and Other	2,228	13,095	526	15,849	2,499
Total	21,669	42,062	1,074	64,805	3,516

	Rubber Compounding Operations	AEP & Other	Corporate and Inter-company Eliminations	Total
Three-months ended June 2009				
Sales	33,238	20,548	(5,241)	48,545
Cost of sales	37,016	15,884	(5,241)	47,659
	(3,778)	4,664	-	886
Operating expenses	1,448	1,182	509	3,139
Other expense (income)	(178)	(620)	(642)	(1,440)
Interest expense (income)	254	171	(1)	424
	(5,302)	3,931	134	(1,237)
Recovery of income taxes				587
Net income (loss) from continuing operations before loss attributed to non-controlling interest				(650)
Purchase of capital assets	799	554		1,353
Amortization of capital assets and other assets	1,053	616	11	1,680
Goodwill	-	7,182	-	7,182

	Rubber Compounding Operations	AEP & Other	Corporate and Inter-company Eliminations	Total
Three-months ended June 2008				
Sales	49,973	18,348	(3,516)	64,805
Cost of sales	45,506	15,043	(3,516)	57,033
	4,467	3,305	-	7,772
Operating expenses	1,506	980	675	3,161
Other expense (income)	183	(31)	(15)	137
Interest expense (income)	480	152		632
	2,298	2,204	(660)	3,842
Provision for income taxes				(1,295)
Net income from continuing operations				2,547
Purchase of capital assets	1,375	385		1,760
Amortization of capital assets and other assets	802	491	18	1,311
Goodwill	7,944	7,182		15,126

Notes to CFS (cont'd)

	Sales excluding inter-company				
	Canada	US	Other	Total	Inter-company
Six-months ended June 2009					
Rubber Compounding Operations	24,332	41,851	201	66,384	2,184
AEP and Other	5,175	27,446	2,625	35,246	7,083
Total	29,507	69,297	2,826	101,630	9,267
Six-months ended June 2008					
Rubber Compounding Operations	38,151	51,547	642	90,340	1,527
AEP and Other	4,862	23,217	1,520	29,599	4,152
Total	43,013	74,764	2,162	119,939	5,679

	Rubber Compounding Operations	AEP & Other	Corporate and Inter-company Eliminations	Total
Six-months ended June 2009				
Sales	68,568	42,329	(9,267)	101,630
Cost of sales	71,655	33,375	(9,267)	95,763
	(3,087)	8,954	-	5,867
Operating expenses	3,014	2,330	1,121	6,465
Other expense (income)	(75)	(828)	(66)	(969)
Interest expense (income)	618	330		948
	(6,644)	7,122	(1,055)	(577)
Recovery of income taxes				396
Net income (loss) from continuing operations				(181)
Assets employed				
Canada	56,566	44,111	3,428	104,105
US	19,623	-	-	19,623
Total	76,189	44,111	3,428	123,728
Purchase of capital assets	1,272	1,126	5	2,403
Amortization of capital assets and other assets	1,724	1,077	22	2,823
Goodwill	-	7,182	-	7,182

	Rubber Compounding Operations	AEP & Other	Corporate and Inter-company Eliminations	Total
Six-months ended June 2008				
Sales	91,867	33,751	(5,679)	119,939
Cost of sales	84,858	27,986	(5,679)	107,165
	7,009	5,765	-	12,774
Operating expenses	2,952	2,230	1,146	6,328
Other expense (income)	544	(100)	(758)	(314)
Interest expense (income)	1,045	294		1,339
	2,468	3,341	(388)	5,421
Provision for income taxes				(1,912)
Net income (loss) from continuing operations				3,509
Assets employed				
Canada	83,353	45,632	2,359	131,344
US	20,651	264	(23)	20,892
Total	104,004	45,896	2,336	152,236
Purchase of capital assets	1,459	841		2,300
Amortization of capital assets and other assets	1,552	912	40	2,504
Goodwill	7,944	7,182	-	15,126

NOTE 7 FINANCIAL INSTRUMENTS

Financial risk management

The Company's activities result in exposure to a variety of financial risks, including risks related to commodity prices, currency fluctuation, interest rates, credit, and liquidity. The risk factors described on pages 21 to 23 of the Company's 2008 Annual Report is an integral part of these interim consolidated financial statements and provides the earnings sensitivity to market risks.

Market Risk

Commodity prices and supplies

The Company's financial performance depends on certain outside sources for raw materials including carbon black and synthetic and natural rubber used in the production of its products, the price and availability of which are subject to fluctuations from such factors as weather, exchange rates, the price of oil, changes in industry production capacity, changes in world inventory levels and other factors beyond the Company's control.

The Company manages its commodity price and supply risk by matching purchase commitments to its customers' requirements during the term of the price quote ranging from 1 to 3 months and maintains supply sources in different areas of the world. The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements; such contracts are not settled net.

During the first six months of 2009, raw material prices continued to decline creating pressure on selling prices in the rubber compounding business and eroding margins until higher priced inventories were consumed.

Currency Risk

Most of the Company's products are sold at prices denominated in US dollars or based on prevailing US dollar prices; most of the raw material purchases are denominated in US dollars, and a significant portion of its operational costs and expenses are incurred in Canadian dollars. Therefore, an increase in the value of the Canadian dollar relative to the US dollar reduces the revenue in Canadian dollar terms realized by the Company from sales made in US dollars, which reduces operating margin and the cash flow available to fund operations. The net US monetary assets and liabilities of its Canadian operations represent a currency risk as the balances are re-measured at the month end spot rate creating an unrealized exchange gain or loss.

The Company manages its currency risk relating to monetary assets and liabilities denominated in US dollars by increasing or decreasing the proportion of operating or term loan denominated in US funds or forward currency contracts. The Company chooses to manage the exchange exposure relating to future sales and the impact on margins of raw materials purchased in US dollars in the rubber compounding division by offsetting the inventory turnover with US denominated 30 day LIBOR debt and 30 day revolving forward contracts which are valued at month end rates. The Rubber Compounding segment's profit and loss is somewhat naturally hedged in that sales denominated in US dollars offset US dollar expenses and debt service costs. AEP's business has relatively lower US dollar expense content and is not naturally hedged and as a result, forward contracts are used to mitigate the impact of foreign exchange volatility.

The weaker Canadian dollar had a favorable impact on US dollar denominated sales compared to the same period last year. The average exchange rate for the quarter was 1.17 compared to 1.01 in the second quarter of last year.

Interest Rate Risk

The Company's interest rate risk mainly arises from the interest rate impact on cash, floating rate debt and pension obligation.

When the demand loan and term loan were negotiated, the primary objective was to obtain flexibility to manage its currency exposure. In Q4 of 2008, the Company increased its proportion of borrowings on a fixed rate basis to balance its exposure. Currently, 62.9% (2008 – 18.8%) of borrowings are on a fixed rate basis and the Company has benefited from the reduction in the variable rates on the portion of borrowings that is not on a fixed rate basis.

At June 30, the interest profile of the Company's interest-bearing financial instruments was:

	2009	2008
Fixed rate instruments		
Financial assets	**$ 157**	150
Financial liabilities	**(17,501)**	(8,101)
Variable rate instruments		
Financial assets	**-**	3,980
Financial liabilities	**(10,331)**	(35,062)
Total	**($ 27,675)**	(39,033)

Fair value sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have changed interest expense and net income by:

	Net income	
(in thousands of Canadian Dollars)	100bp increase	100bp decrease
2009 Variable rate instruments	(12)	29
2008 Variable rate instruments	(48)	60

Credit Risk

The Company sells its products to a variety of customers under various payment terms in the normal course of its operations and therefore is exposed to credit risks. The Company's exposure to credit risk is influenced by general economic conditions, the default risk of the industry and the relative concentration of business. A majority of the Company's trade receivables are derived from sales to distributors, and manufacturers who have been transacting with the Company for over five years.

In monitoring credit risk, the Company considers industry, volume and aging trends, maturity, and other relevant factors. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. Purchase limits established for certain accounts represent the maximum open balance permitted without approval from the CEO. The Company maintains reserves for potential credit losses relating to specific exposures, and any such losses to date have been within management's expectations. The loss of any such customers or the delay or cancellation of any orders under certain high-volume contracts could have a significant impact on the Company.

The Company did not experience any material bad debts in the first and second quarter of 2009 and still believes that its five largest customers are credit worthy.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions.

The Company manages liquidity by maintaining adequate cash balances, having appropriate lines of credit available and monitoring cash requirements to meet expected operational expenses including debt service and capital requirements. In addition, the Company maintains a facility permitting the Company to borrow up to $35 million (2008 - $45 million). At the quarter end, the Company had $0.5 million on deposit and no net drawings against this facility (2008: $25.8 million).

Fair value of financial instruments

The Company's financial instruments consist of accounts receivable, demand loan, accounts payable and accrued liabilities, term loan and other debt. The fair values of accounts receivable, demand loan, accounts payable and accrued liabilities, as recorded in the consolidated balance sheets approximate their carrying amounts due to the short-term maturities of these instruments. The term loan reflects current market interest rates therefore the carrying amount approximate fair value. The fair value of the other debt is not readily determinable. The fixed rate exchange contracts to sell US $34.5 million for CAD $40.5 million have been recorded at their fair market value as a net asset of $0.7 million.

The Company has designated:

- forward contracts as held for trading
- accounts receivable, and note receivables as loans and receivables
- accounts payable, demand loan and term debt as other liabilities

The carrying value and fair value are as follows:	**June 30, 2009**	December 31, 2008
Held for trading	**$ 677**	$ (8)
Loans and receivables	**26,289**	35,315
Other liabilities	**(46,697)**	(74,148)

Capital Management

The Company has defined its capital as follows:	**June 30, 2009**	December 31, 2008
Demand loan	**$ 1,366**	$ 17,788
Term loan and other debt	**26,849**	28,060
Shareholders' equity	**64,203**	65,166
	$ 92,418	$ 110,014

The Company's business is cyclical and it experiences significant changes in cash flow over the business cycle. In addition, the Company's financial performance can be materially influenced by changes in the relative value of the Canadian and US dollar.

The Company's fundamental objective in managing capital is to ensure adequate liquidity and financial flexibility at all times, but particularly at the bottom of the business cycle and in a strong Canadian dollar environment. The Company constantly monitors and assesses its financial performance in order to ensure that its net debt levels are prudent taking into account the anticipated direction of the business cycle. When reviewing financing decisions, the Company considers the impact of debt and equity financing on its existing and future shareholders. The Company has established a committed revolving line of credit that provides liquidity and flexibility when capital markets are restricted.

Directors and Officers currently own 23.7% or 5,605,473 shares of the Company. Each Director is required to hold shares for value equal to 3 years retainer fees in order to align objectives with that of shareholders. There is no plan to extend availability of options beyond key management and senior employees. The Company implemented a semi-annual dividend policy to provide an additional return.

The Board has approved a normal course issuer bid to purchase up to 1.8 million shares as it believes it will be accretive to shareholders. In the second quarter, 166,400 shares were repurchased pursuant to its normal course issuer bid. The Board would consider a share issue to finance a sizeable acquisition should an opportunity arise.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

AirBoss of America Corp.

OFFICES

Canada

NEWMARKET, ONTARIO

AirBoss of America Corp.

Corporate Office:
16441 Yonge Street
Newmarket, Ontario, Canada L3X 2G8
Telephone: 905-751-1188
Facsimile: 905-751-1101

Chairman:
P. G. (Gren) Schoch

President and Chief Executive Officer:
R. L. (Bob) Hagerman

Vice-President Finance and CFO:
Stephen W. Richards

KITCHENER, ONTARIO

AirBoss Rubber Compounding

Address:
101 Glasgow Street
Kitchener, Ontario, Canada N2G 4X8
Telephone: 519-576-5565
Facsimile: 519-576-1315

Executive Vice-President:
Robert Dodd

Vice-President Sales and Marketing:
John Tomins

Vice-President of Supply Chain Management:
John Bergman

SUBSIDIARIES

QUÉBEC

AirBoss Produits d'Ingénierie Inc./AirBoss Engineered Products Inc.

Address:
881 rue Landry
Acton-Vale, Québec, Canada J0H 1A0
Telephone: 450-546-2776
Facsimile: 450-546-3735

Director of Manufacturing:
Yvan Ambeault

Divisional President, AirBoss-Defense Products:
Earl Laurie

Sales Manager – Industrial Products:
Marcel Courtemanche

United States

NORTH CAROLINA

AirBoss Rubber Compounding (NC), Inc.

Address:
500 AirBoss Parkway
Scotland Neck, North Carolina, U.S.A. 27874
Telephone: 252-826-4919
Facsimile: 252-826-4994

General Manager:
Robert Dodd

Designed and Produced by 4ward Intellect Inc. Printed in Canada