



Third Quarter
Interim Report 2009
AirBoss of
America Corp.





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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

- Third Quarter earnings per share increase 80%
- Record sales of CBRN Protective wear.

AirBoss Engineered Products – AirBoss-Defense

Defense product sales for the nine-month period increased by 36% while EBIT for the entire AirBoss Engineered Products group increased by 139% to \$13.6 million compared to the same period in 2008. The increased sales are due to higher demand for the CBRN (“Chemical, Biological, Radiological and Nuclear”) products including gas masks, overboots and gloves. The increase in profitability is due to greater fixed cost recoveries and efficiencies due to the increase in volume and favourable exchange rates. Sales in the fourth quarter of the year are expected to continue at these higher levels.

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 before the end of the year to complete the final testing and packaging of deliveries destined for the US Military. In early 2010, the facility’s activity will be expanded to include injection molding of CBRN gloves. Further expansions are scheduled to coincide with the adoption of the next generation CBRN overboot. Manufacturing in the US will also help to partially shield the Company from future exchange fluctuations.

AirBoss Rubber Compounding

AirBoss Rubber Compounding returned to profitability in the third quarter after having disposed of all its high priced raw materials. Year-to-date volumes are down by 32% due to general economic conditions. This is an industry wide phenomenon with declines in virtually all market segments. While there has been some recent improvement in certain sectors, such as mining and agriculture, it is anticipated that the recovery will be spread over several quarters.

On a positive note, we have taken steps whereby we can be profitable at the anticipated volumes. We have also taken steps to improve the reliability and performance of certain equipment to ensure that it will produce up to AirBoss standards. We have spent over \$2 million on capital improvements in this business while at the same time reducing overall borrowings by \$19.8 million.

Outlook

AirBoss-Defense will continue to grow over the next 12 months. Production facilities in the US are scheduled to open as early as December 2009 starting with final inspection and vacuum packaging. Injection molding operations are planned to begin early in the first quarter of 2010. Field testing of the next generation CBRN overshoe continues along with debugging of production tooling. The introduction of this product will increase product performance of our world leading CBRN overshoe while reducing production costs. We are also in the process of identifying and pursuing opportunities to increase the soldier protection product line.

The recovery of the rubber compounding industry is underway, but the rate of the improvement is difficult to predict with certainty. With the final disposal of high cost raw materials in the first six months, margins returned towards normal levels and the business generated profits again during the third quarter.

The Defense Division is slightly ahead of both sales and profitability goals for the nine-month period, and we anticipate a strong fourth quarter. The Company has reduced the exchange risk by hedging its estimated net US dollar defense product receipts by selling US dollars forward. At the end of September, there were US \$5 million in forward contracts maturing in the fourth quarter and US \$18 million maturing in 2010 which have been marked to market at September 30, 2009.

In summary, we anticipate continued excellent results by our military products group and improvement in rubber compounding divisional 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 nine month periods ended September 30, 2009 have been prepared as of November 10, 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.airbossfamerica.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, and retail 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

Operating results improved significantly in the third quarter due to the continued strong performance of the defense products division combined with the return to profitability of the rubber compounding division.

Exchange gains amounted to \$1.7 million pre-tax of which approximately one half were related to forward contracts to sell US dollars which were entered into to preserve military product margins at the time orders were received.

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.

MD&A (cont'd)

Selected Financial Information

- All markets except defense affected by US dollar and softening economy
- Margins improved by \$0.9 million due to higher sales of military products

The average exchange rate was 1.099 for the quarter compared to 1.0418 in the third quarter of last year and 1.1699 year-to-date compared to 1.0186 for the same period last year.

(\$ thousands, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
		(note 1)		(note 1)
Financial results:				
Net sales	50,562	65,467	152,192	185,406
Net income from continuing operations	3,820	2,133	3,639	5,642
Net income per share				
- Basic and Diluted	0.16	0.09	0.15	0.25
EBITDA (non-GAAP financial measure)	7,645	5,091	10,859	14,393
Operating cash flow provided by (used in) operations	4,668	(11,055)	21,868	(12,805)
Capital expenditures	(1,379)	(430)	(3,421)	(2,812)
Dividends declared per share	-	-	0.025	0.025

(\$ thousands)	September 30, 2009	December 31, 2008
Financial Position:		
Total assets	128,147	156,292
Demand loan, (Cash)	(855)	17,788
Term loan and other debt	26,013	28,060
Shareholders' equity	68,115	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:

(\$ thousands)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
EBITDA:				
Income from continuing operations before income taxes	5,898	3,454	5,321	8,875
Net financing interest expense	406	657	1,354	1,996
Depreciation and amortization	1,341	980	4,184	3,522
EBITDA	7,645	5,091	10,859	14,393

MD&A (cont'd)

RESULTS OF OPERATIONS

SALES FROM CONTINUING OPERATIONS

Sales revenues decreased by 22.8% for the quarter and 17.9% for the nine-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 September 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Total
Net sales	2009	30,621	19,941	50,562
	2008	49,541	15,926	65,467
Increase (decrease) \$		(18,920)	4,015	(14,905)
Increase (decrease) %		(38.2)	25.2	(22.8)
Nine months ended September 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Total
Net sales	2009	97,005	55,187	152,192
	2008	139,881	45,525	185,406
Increase (decrease) \$		(42,876)	9,662	(33,214)
Increase (decrease) %		(30.7)	21.2	(17.9)

Rubber Compounding

Sales dollars decreased by 38.2% in the quarter of which 32.5% was volume related and 8% related to sales price reductions due to raw material price savings and customer mix. The difference of 2.3% represents an increase in sales due to the translation of US dollar denominated sales.

All sectors continue to show volume decreases compared to previous years with the exception of defense and agricultural products. While sales quantities have stopped their decline, it will be several quarters before total volumes return to 2008 levels. Customers have also shortened lead times and reduced inventory levels in order to preserve working capital.

The fourth quarter should show some volume recovery particularly in the mining related products such as off-road tire retread compounds.

AirBoss Engineered Products

AirBoss-Defense sales increased by \$6.2 million for the quarter of which \$0.8 million was attributable to exchange and the balance due to increased volumes. Sales of Chemical Biological Radiological and Nuclear ("CBRN") military over-boot increased 44% and CBRN protective handwear increased by 100% compared to the third quarter of 2008. These increased levels of sales are expected to continue into the first 6 months of 2010.

Industrial product sales decreased \$2.2 million for the quarter as a result of lower sales to the recreational vehicle market from lower volumes due to market conditions. No further significant declines are anticipated in the immediate future and the Company is working on several opportunities in the calendered fabric area where we are very price competitive due to the ability to purchase imported fabric.

GROSS MARGIN

Gross margins which were severely impacted in the first six months of the year as the rubber compounding division consumed high priced raw materials recovered in the third quarter showing an overall gain of \$0.9 million compared to the previous year and an increase of 5.1% as a percentage of sales.

This increase was attributable to a combination of favourable exchange rates compared to 2008 and increased sales of CBRN defense products. This favourable product mix should continue to support higher overall margins in the fourth quarter.

Margins in the rubber compounding business were less than in the same period in 2008 but higher than in the first six months of 2009. The lower compounding margins are attributable to lower recovery of fixed costs due to the lower volumes and a highly price competitive market.

Not included in gross margins is approximately \$0.6 million in gains on forward sales contracts of US dollars during the period. These contracts were entered into to offset net cash inflows of US dollars from military product orders. The gains are reported as other income.

Three months ended September 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Total
Gross Margin	2009	1,593	6,537	8,130
	2008	4,134	3,093	7,227
Increase (decrease) \$		(2,541)	3,444	903
% net of sales	2009	5.2	32.8	16.1
	2008	8.3	19.4	11.0
Nine months ended September 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Total
Gross Margin	2009	(1,494)	15,491	13,997
	2008	11,143	8,858	20,001
Increase (decrease) \$		(12,637)	6,633	(6,004)
% net of sales	2009	(1.5)	28.1	9.2
	2008	8.0	19.5	10.8

MD&A (cont'd)

OPERATING EXPENSES

Three months ended September 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Operating expenses	2009	1,892	1,178	497	3,567
	2008	1,559	1,139	567	3,265
Increase (decrease) \$		333	39	(70)	302
% net of sales	2009	6.2	5.9	N/A	7.1
	2008	3.1	7.2	N/A	5.0
Nine months ended September 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Operating expenses	2009	4,906	3,508	1,618	10,032
	2008	4,511	3,368	1,714	9,593
Increase (decrease) \$		395	140	(96)	439
% net of sales	2009	5.1	6.4	N/A	6.6
	2008	3.2	7.4	N/A	5.2

Q3 2009 operating expenses were \$0.4 million higher than Q3 2008 due to an increase in the provision for doubtful accounts receivable in the Rubber Compounding segment.

INTEREST, FOREIGN EXCHANGE AND OTHER INCOME

Three months ended September 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Interest, FX & Other Income	2009	210	600	525	1,335
	2008	(531)	(62)	85	(508)
Increase (decrease) \$		741	662	440	1,843
% net of sales	2009	0.7	3.0	N/A	2.6
	2008	(1.1)	(0.4)	N/A	(0.8)
Nine months ended September 30 (\$ thousands)		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Interest, FX & Other Income	2009	(333)	1,098	591	1,356
	2008	(2,120)	(256)	843	(1,533)
Increase (decrease) \$		1,787	1,354	(252)	2,889
% net of sales	2009	(0.3)	2.0	N/A	0.9
	2008	(1.5)	(0.6)	N/A	(0.8)

Interest expense for the three months ended September 30, 2009 was \$0.4 million compared to \$0.7 million for the same period in 2008. Lower borrowing levels due to decreased working capital requirements in the rubber compounding business reduced interest costs in the quarter by \$0.3 million.

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 \$1.7 million in the current quarter compared to an exchange loss of \$0.4 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 and pound sterling receipts for the year when they are reasonably predictable, such as with the Defense division. As at September 30, 2009, the Company held forward contracts to sell US dollars totaling US \$28.5 million at an average rate of approximately CAD \$1.1408 and to sell pound sterling totaling £1.6 million at an average rate of CAD \$1.781. These have been adjusted to market.

INCOME TAX EXPENSE

The Company recorded an income tax expense in the quarter of \$2.1 million or an effective income tax rate for the quarter of 35.2% (38.3% in 2008) and 31.6% (36.4% in 2008) on a year-to-date basis.

The Company recorded a higher effective tax rate in the third quarter of 2009 as a result of future income tax adjustments relating to exchange rates.

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

MD&A (cont'd)

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 in the third quarter of 2009 amounted to \$3.8 million and \$2.1 million in 2008. The basic and fully diluted earnings per share in the quarter and year-to-date were \$0.16 (2008 - \$0.09) and \$0.15 (2008 - \$0.25) based on basic and fully diluted shares outstanding of 23,639 and 23,691 (2008-23,805) and 23,730 (2008-23,805) respectively.

QUARTERLY INFORMATION

(\$ thousands except per share amounts)	Net Sales	Net Income (Loss)		Net Income (Loss) per share	
		Continuing	Total	Basic	Diluted
Quarter Ended					
September 30, 2009	50,562	3,820	3,820	0.16	0.16
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	74,008	(6,949)	(6,756)	(0.28)	(0.28)
September 30, 2008	65,467	2,133	2,079	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

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

Items impacting comparability of quarters

- The third quarter of 2009 reflects increased defense sales and the corresponding margins.
- 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

During the nine-month period ended September 30, 2009 the Company has reduced overall debt levels by \$19.8 million.

Cash flows from operations

AirBoss generated \$5.0 million in operating cash flows before changes in working capital in the third quarter of 2009 compared to \$3.5 million in Q3 2008 primarily from higher net income and future income taxes and lower 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 \$0.6 million in the quarter as follows:

Accounts receivable increased by \$4.6 million due to:

- Rubber Compounding receivables increased by \$2.7 million primarily from proportionately higher sales occurring at the end of the quarter. Receivables over 60 days increased by \$0.5 million and these were collected subsequent to quarter end. As a result, days sales outstanding increased 9.4 days compared to the second quarter.
- AEP receivables increased \$1.9 million from higher defense sales

Inventories increased by \$0.6 million due to the timing of receipts:

- Rubber Compounding inventory increased by \$1.8 million
- AEP decreased its inventory by \$1.2 million

Accounts payable increased by \$3.8 million primarily relating to inventory purchases and the timing of insurance premium settlements:

- Rubber Compounding \$3.5 million
- AEP \$0.3 million

During the third quarter of 2009, the Company recorded current tax recoveries of \$0.5 million relating to its compounding operations and recorded \$0.9 million tax provision in excess of required tax installments in AEP.

MD&A (cont'd)

Capital expenditures

Capital expenditures for the quarter ended September 30, 2009 were \$1.4 million (\$0.4 million in 2008) and year-to-date, \$3.4 million (\$2.8 million in 2008). In 2009, the spending was as follows:

- Rubber Compounding spent \$2.1 million of which \$1.5 million related to projects to replace key equipment in Scotland Neck to improve operating efficiency and reduce downtime.
- AEP incurred \$0.7 million for manufacturing equipment including enhancements to an extruder for the industrial business and \$0.3 was spent on tooling for injection molding during the first six months of the year. During the third quarter a further \$0.3 million was spent on tooling and \$0.3 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. The third quarter included an additional \$0.1 million software development to support Defense sales.

Financing

At September 30, 2009, the Company had cash on hand of \$2.1 million and an unused credit facility of \$35 million compared to borrowing of \$38 million in 2008. The operating line facility was renewed in October 2009 with similar terms.

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

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:

(\$ thousands)	Total	Payments Due In					
		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 third quarter of 2009, the Company entered into forward contracts to sell £1.6 million at 1.781 and US \$6 million at an average rate of 1.091 on a multiple delivery window forward basis. At quarter end, the Company has forward contracts to sell US \$28.5 million for CAD \$32.5 million to August 31, 2010.

Critical Estimates

Bad debt provision increased \$0.4 million to reflect a preliminary fair value assessment of certain accounts receivable relating to accounts filing under chapter 11.

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 September 30, 2009 (\$30,000 in 2008).

The Company paid dues relating to a facility in South Carolina of approximately \$5,200 for the three-month period (\$4,800 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, 2012 bearing interest at 5% annually with full recourse and is included in the financial statements under the caption "other assets".

MD&A (cont'd)

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 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

AirBoss-Defense will continue to grow over the next 12 months. Production facilities in the US are scheduled to open as early as December 2009 starting with final inspection and vacuum packaging. Injection molding operations are planned to begin early in the first quarter of 2010. Field testing of the next generation CBRN overshoe continues along with debugging of production tooling. The introduction of this product will increase product performance of our world leading CBRN overshoe while reducing production costs. We are also in the process of identifying and pursuing opportunities to increase the soldier protection product line.

The recovery of the rubber compounding industry is underway but the rate of the improvement is difficult to predict. With the final disposal of high cost raw materials in the first six months margins returned towards normal levels and the business generated profits again during the third quarter although at minimal levels. Order lead times are at the shortest in recent history and competition for these orders has been high and will remain so for the remainder of the year.

The Defense Division is slightly ahead of both sales and profitability goals for the nine-month period and we anticipate a strong fourth quarter. The Company has reduced the exchange risk by hedging its estimated net US dollar defense product receipts by selling US dollars forward. At the end of September, there were US \$5 million in forward contracts maturing in the fourth quarter and US \$18 million maturing in 2010 which have been marked to market at September 30, 2009.

We anticipate continued excellent results by our military products group and improvement in rubber compounding divisional performance to the end of the year.



R.L. Hagerman
President and Chief Executive Officer



S.W. Richards
Vice-President Finance and CFO

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

For the three month periods ended September 30, 2009 and 2008

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

The accompanying unaudited interim consolidated financial statements of the Company for the interim periods ended September 30, 2009 and 2008 have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the Company's management.

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

Dated this 10th day of November, 2009.

Consolidated Balance Sheets

(thousands \$ CDN)	September 30, 2009 (unaudited)	December 31, 2008 (restated Note 2)
ASSETS		
Current assets:		
Cash	\$ 855	\$ -
Accounts receivable	29,845	31,864
Inventories	28,180	52,849
Prepaid expenses	890	637
Income taxes receivable	266	-
Total current assets	60,036	85,350
Capital assets	52,766	53,362
Goodwill	7,182	7,182
Future income tax assets	5,376	6,105
Other assets	2,787	4,293
Total assets	\$ 128,147	\$ 156,292
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand loan	\$ -	\$ 17,788
Accounts payable and accrued liabilities	22,302	28,301
Income taxes payable	-	2,503
Dividends payable	-	596
Current liabilities of discontinued operations	-	2,409
Current portion of term loan and other debt	1,429	1,513
Total current liabilities	23,731	53,110
Term loan and other debt	24,584	26,547
Future income tax liabilities	9,232	9,202
Accrued post retirement benefit liability	2,485	2,267
Total liabilities	60,032	91,126
<i>Commitments and contingencies (Note 5)</i>		
Shareholders' equity:		
Share capital	40,255	40,537
Contributed surplus	2,094	1,911
Retained earnings	25,766	22,718
Total shareholders' equity	68,115	65,166
Total liabilities and shareholders' equity	\$ 128,147	\$ 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 September 30		Nine months ended September 30	
	2009	2008	2009	2008
		(restated Note 2)		(restated Note 2)
NET SALES	\$ 50,562	\$ 65,467	\$ 152,192	\$ 185,406
Cost of sales	42,432	58,240	137,783	165,405
Loss on disposal	-	-	412	-
Total cost of sales	42,432	58,240	138,195	165,405
Gross margin	8,130	7,227	13,997	20,001
OPERATING EXPENSES				
General and administrative	2,351	2,049	6,363	6,056
Selling and marketing	972	983	2,907	2,738
Product research	244	233	762	799
Total operating expenses	3,567	3,265	10,032	9,593
Income before undernoted items	4,563	3,962	3,965	10,408
Other income (expense)	(1)	(5)	152	268
Foreign exchange gain	1,742	154	2,558	195
Interest expense	(406)	(657)	(1,354)	(1,996)
Interest, foreign exchange and other income	1,335	(508)	1,356	(1,533)
Income from continuing operations, before income taxes	5,898	3,454	5,321	8,875
Provision for income taxes	(2,078)	(1,321)	(1,682)	(3,233)
Net income from continuing operations	3,820	2,133	3,639	5,642
Income (loss) from discontinued operations (net of tax)	-	(54)	-	206
Net income	3,820	2,079	3,639	5,848
Dividends	-	-	(591)	(595)
Change in accounting policy related to Goodwill and Intangible Assets	-	-	(527)	(704)
Retained earnings, beginning of period	21,946	27,992	23,245	25,522
Retained earnings, end of period	\$ 25,766	\$ 30,071	\$ 25,766	\$ 30,071
From net income				
Basic and diluted	\$ 0.16	\$ 0.09	\$ 0.15	\$ 0.25

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income

(unaudited) (thousands \$ CDN)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
		(restated Note 2)		(restated Note 2)
Net Income (loss)	\$ 3,820	\$ 2,079	\$ 3,639	\$ 5,848
Other comprehensive loss - net of income tax:				
Change in foreign currency translation losses on self-sustaining foreign operations	-	83	-	149
Comprehensive income (loss)	\$ 3,820	\$ 2,162	\$ 3,639	\$ 5,997
Accumulated other comprehensive loss, beginning of the period	\$ -	\$ (757)	\$ -	\$ (823)
Accumulated other comprehensive income (loss) - net of income tax	-	83	-	149
Accumulated other comprehensive loss, end of the period	\$ -	\$ (674)	\$ -	\$ (674)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(unaudited) (thousands \$ CDN)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
		(restated Note 2)		(restated Note 2)
CASH PROVIDED BY (USED IN):				
Operating Activities:				
Net income from continuing operations	\$ 3,820	\$ 2,133	\$ 3,639	\$ 5,642
Items not affecting cash:				
Amortization	1,341	980	4,184	3,522
Loss (Gain) on disposal of capital assets	44	-	44	-
Future income taxes	903	(102)	759	(710)
Foreign exchange (gain) loss	(1,301)	278	(2,509)	373
Options expense	92	108	275	301
Post-retirement benefits expense	72	76	218	227
	4,971	3,473	6,610	9,355
Net change in non-cash operating working capital balances	644	(15,434)	17,667	(22,664)
Net cash provided by (used in) continuing operations	5,615	(11,961)	24,277	(13,309)
Net cash provided by (used in) discontinued operations	(947)	906	(2,409)	504
Cash provided by (used in) operating activities	4,668	(11,055)	21,868	(12,805)
Investing Activities:				
Purchase of capital assets	(1,379)	(430)	(3,421)	(2,812)
Proceeds on disposal of capital assets	-	-	-	-
Increase (decrease) in other assets	(146)	15	2,794	(248)
Cash used in investing activities	(1,525)	(415)	(627)	(3,060)
Financing Activities:				
Net increase (decrease) in demand loan	(1,366)	12,388	(17,788)	18,011
Repayment of term loan	(331)	(323)	(1,037)	(956)
Dividends paid	(591)	(595)	(1,187)	(1,190)
NCIB purchase of share capital	-	-	(374)	-
Cash provided by (used in) financing activities	(2,288)	11,470	(20,386)	15,865
Increase (decrease) in cash during the period	855	-	855	-
Cash and short-term deposits at the beginning of the period	-	-	-	-
Cash and short-term deposits at the end of the period	\$ 855	\$ -	\$ 855	\$ -
Supplementary Cash Flow Information:				
Cash Interest paid	\$ 458	\$ 629	\$ 1,332	\$ 2,188
Cash income taxes remitted	695	(593)	4,865	(16)
Trade-in proceeds	-	-	361	-

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(unaudited) (thousands \$ CDN) Nine months ended September 30, 2009	Common shares		Contributed surplus	Retained Earnings	Total Shareholders Equity
	Amount	Number of shares (000's)			
Balance, December 31, 2008	40,537	23,805	1,911	23,245	65,693
Change in accounting policy related to Goodwill and Intangible assets (Note 2)	-	-	-	(527)	(527)
As restated, January 1, 2009	40,537	23,805	1,911	22,718	65,166
Net income for the period	-	-	-	3,639	3,639
Dividends declared	-	-	-	(591)	(591)
Repurchase of common shares	(282)	(166)	(92)	-	(374)
Stock option expense	-	-	275	-	275
Balance, September 30, 2009	40,255	23,639	2,094	25,766	68,115

(unaudited) (thousands \$ CDN) Nine months ended September 30, 2008	Common shares		Contributed surplus	Accumulated comprehensive loss	Retained Earnings	Total Shareholders Equity
	Amount	Number of shares (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 for the period	-	-	-	-	5,848	5,848
Dividends declared	-	-	-	-	(595)	(595)
Other comprehensive income (net of tax)	-	-	-	149	-	149
Stock option expense	-	-	301	-	-	301
Balance, September 30, 2008	40,537	23,805	1,792	(674)	30,071	71,726

Notes to Consolidated Financial Statements

Three and nine months ended September 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 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

Notes to CFS (cont'd)

- 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

	September 30, 2009	December 31, 2008
Number of common 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 nine months ended September 30, 2009, nor were any options exercised.

Stock Based Compensation

During the third quarter ended September 30, 2009, the Company recorded stock-based compensation of \$91,500 (\$108,000 in 2008) relating to prior year option grants in general and administrative expenses of the statement of income. For the nine-month year-to-date period, the expense was \$275,000 compared to \$301,000 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. There was no activity in the third quarter.

NOTE 4 FUTURE RETIREMENT BENEFITS

During the three-month periods September 30, 2009 and 2008, the Company's future retirement benefit expenses were \$73,000 and \$76,000 respectively. For the nine-month year-to-date period, the expense was \$218,000 in 2009 compared to \$226,000 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:

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

Forward Exchange Contracts

During the third quarter of 2009, the Company entered into forward contracts to sell US \$6 million at an average rate of 1.091 on a multiple delivery window forward basis. At quarter end, the Company has forward contracts to sell US \$28.5 million for CAD \$32.5 million to August 31, 2010. As well, the Company entered into forward contracts to sell £1.6 million at a rate of 1.7810 (CAD \$ 2.9 million) with multiple delivery windows of up to May 11, 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 September 30, 2009 (\$30,000 in 2008). The Company paid dues relating to a facility in South Carolina of approximately \$5,200 for the three-month period (\$4,800 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, 2012 bearing interest at 5% annually with full recourse and is included in the financial statements under the caption "other assets".

Notes to CFS (cont'd)

NOTE 6 SEGMENTED INFORMATION

	Sales excluding inter-company				
	Canada	US	Other	Total	Inter-company
Three-months ended September 2009					
Rubber Compounding Operations	10,276	20,124	221	30,621	(519)
AEP and Other	3,624	14,450	1,867	19,941	3,666
Total	13,900	34,574	2,088	50,562	3,147
Three-months ended September 2008					
Rubber Compounding Operations	16,714	32,767	60	49,541	2,254
AEP and Other	4,075	11,596	255	15,926	2,298
Total	20,789	44,363	315	65,467	4,552

	Rubber Compounding Operations	AEP & Other	Corporate and Inter-company Eliminations	Total
Three-months ended September 2009				
Sales	30,102	23,607	(3,147)	50,562
Cost of sales	28,509	17,070	(3,147)	42,432
Operating expenses	1,593	6,537	-	8,130
Other income	1,892	1,178	497	3,567
Interest expense	(459)	(755)	(527)	(1,741)
Income before income taxes	249	155	2	406
Provision for income taxes	(89)	5,959	28	5,898
Net income from continuing operations				(2,078)
Purchase of capital assets				3,820
Amortization of capital assets and other assets	574	798	7	1,379
Goodwill	795	524	12	1,331
	-	7,182	-	7,182
Three-months September 2008				
Sales	51,795	18,224	(4,552)	65,467
Cost of sales	47,661	15,131	(4,552)	58,240
Operating expenses	4,134	3,093	-	7,227
Other income	1,559	1,139	567	3,265
Interest expense	4	(81)	(72)	(149)
Income before income taxes	527	143	(13)	657
Provision for income taxes	2,044	1,891	(482)	3,454
Net income from continuing operations				(1,321)
Purchase of capital assets				2,133
Amortization of capital assets and other assets	463	47	2	512
Goodwill	538	451	10	999
	7,944	7,182	-	15,126

Notes to CFS (cont'd)

	Sales excluding inter-company				Inter-company
	Canada	US	Other	Total	
Nine-months ended September 2009					
Rubber Compounding Operations	34,608	61,975	422	97,005	1,665
AEP and Other	8,799	41,896	4,492	55,187	10,749
Total	43,407	103,871	4,914	152,192	12,414
Nine-months ended September 2008					
Rubber Compounding Operations	54,865	84,314	702	139,881	3,781
AEP and Other	8,938	34,812	1,775	45,525	6,450
Total	63,803	119,126	2,477	185,406	10,231

	Rubber Compounding Operations	AEP & Other	Corporate and Inter-company Eliminations	Total
Nine-months ended September 2009				
Sales	98,670	65,936	(12,414)	152,192
Cost of sales	100,164	50,445	(12,414)	138,195
Operating expenses	(1,494)	15,491	-	13,997
Other expense (income)	4,906	3,508	1,618	10,032
Interest expense (income)	(534)	(1,583)	(593)	(2,710)
	867	485	2	1,354
Income before income taxes	(6,733)	13,081	(1,027)	5,321
Provision for income taxes				(1,682)
Net income from continuing operations				3,639
Assets employed				
Canada	51,844	44,645	12,531	109,020
US	19,127	-	-	19,127
Total	70,971	44,645	12,531	128,147
Purchase of capital assets	1,846	1,924	12	3,782
Amortization of capital assets and other assets	2,519	1,601	34	4,154
Goodwill	-	7,182	-	7,182

	Rubber Compounding Operations	AEP & Other	Corporate and Inter-company Eliminations	Total
Nine-months ended September 2008				
Sales	143,662	51,975	(10,231)	185,406
Cost of sales	132,519	43,117	(10,231)	165,405
Operating expenses	11,143	8,858	-	20,001
Other expense (income)	4,511	3,368	1,714	9,593
Interest expense	548	(181)	(830)	(463)
	1,572	437	(13)	1,996
Income before income taxes	4,512	5,234	(871)	8,875
Provision for income taxes				(3,233)
Net income from continuing operations				5,642
Assets employed				
Canada	90,357	45,191	882	136,430
US	22,925	-	(20)	22,905
Total	113,282	45,191	862	159,335
Purchase of capital assets	1,922	888	2	2,812
Amortization of capital assets and other assets	2,090	1,363	50	3,503
Goodwill	7,944	7,182	-	15,126

Notes to CFS (cont'd)

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 nine 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 1.09 compared to 1.04 in the third 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, 72.2% (2008 – 14.2%) 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 September 30, the interest profile of the Company's interest-bearing financial instruments was:

	2009	2008
Fixed rate instruments		
Financial assets	\$ 150	150
Financial liabilities	(17,351)	(7,951)
Variable rate instruments		
Financial assets	-	4,368
Financial liabilities	(6,665)	(47,558)
Total	\$ (23,866)	(50,991)

Fair value sensitivity analysis for variable rate instruments

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

(in thousands of Canadian Dollars)	Net income	
	100bp increase	100bp decrease
2009 Variable rate instruments	(18)	24
2008 Variable rate instruments	(62)	71

Notes to CFS (cont'd)

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. One customer represented 20.2% (2008-22.3%) of total sales. Five customers represented 59.9% and 55.47% of sales in 2009 and 2008 respectively. 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, recorded a provision of \$0.4 million in the third quarter 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 \$2.1 million on deposit and no net drawings against this facility (2008: \$38 million).

Fair value of financial instruments

The Company's financial instruments consist of accounts receivable, note receivable, demand loan, accounts payable and accrued liabilities, term loan and other debt. The fair values of accounts receivable, note 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 foreign exchange rate contracts to sell US \$28.5 million for CAD \$32.5 million and forward contracts to sell £1.6 million have been recorded at their fair market value as a net asset of \$1.5 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:

	September 30, 2009	December 31, 2008
Held for trading	\$ 1,462	\$ (8)
Loans and receivables	29,995	35,315
Other liabilities	(47,460)	(74,148)

Capital Management

The Company has defined its capital as follows:

	September 30, 2009	December 31, 2008
Demand loan	\$ -	\$ 17,788
Term loan and other debt	26,013	28,060
Shareholders' equity	68,115	65,166
	\$ 94,128	\$ 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 24.2% or 5,725,473 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. No shares were repurchased in the third quarter. 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.

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