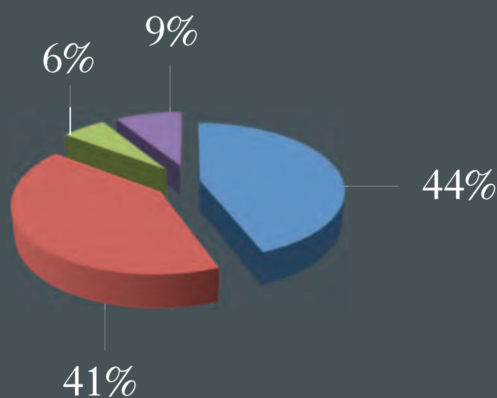
Integrated Growth

2014 Annual Report

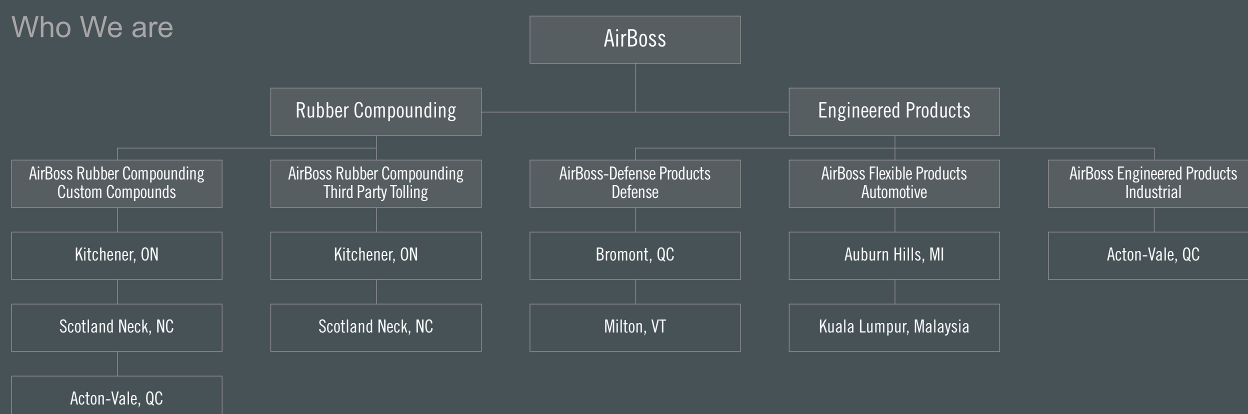
AIRBOSS OF AMERICA 2014

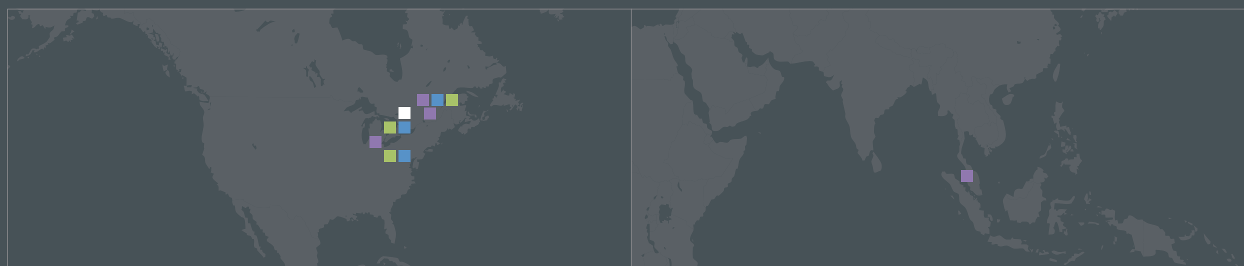
Revenue

- Compounding
- Flexible
- Defense
- Industrial



Who We are





Locations

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

Table of Contents

01 Operations

08 Letter to Shareholders

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

23 Management's Responsibility for Financial Reporting

23 Auditors' Report to the Shareholders of AirBoss of America Corp.

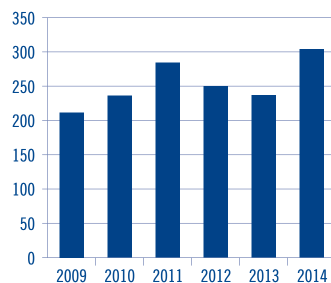
24 Consolidated Financial Statements

28 Notes to Consolidated Financial Statements

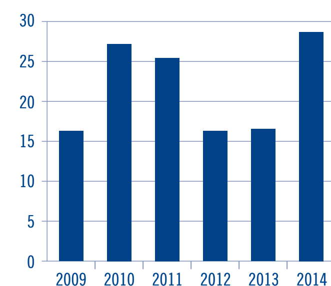
56 Corporate Information

2014 vs 2013

- Net sales increased by 28.3% to $303.2 million
- EBITDA increase of 74.1% to $28.9 million
- EPS increased by 114.3% to US$0.60 from $0.28
- Operational efficiencies are driving upward momentum



Revenue



EBITDA

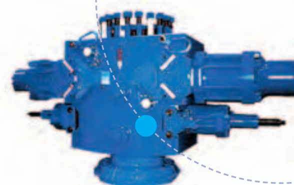
We outperformed expectations in 2014.

Despite some challenges in 2014, we had a very good year. Revenues and EBITDA both increased significantly and our acquisition of Flexible Products in 2013 performed better than expected.

AirBoss of America Historical Information

For the years ending December 31	2014	2013	2012	2011	2010	2009
Closing market price per common share	12.22	7.75	5.05	4.91	6.29	5.50
Dividends paid per share	0.2000	0.2000	0.1875	0.1425	0.1100	0.0650
Increase (decrease) in share price (%)	58%	53%	3%	(21.1%)	13%	
Earnings per share - fully diluted[1]	0.60	0.28	0.31	0.55	0.54	0.26
Return on Equity	16.0%	7.9%	9.1%	16.4%	17.5%	9.0%

[1] in CAD 2009 - 2010, in USD onwards



We convert a vital commodity into engineered products with higher margins.

Rubber is ubiquitous. It's difficult to imagine modern life without it and demand continues to grow. As one of North America's leading rubber compounders, AirBoss not only converts raw rubber into thousands of formulated compounds for industry, we also use our own proprietary rubber compounds to create higher margin engineered products, including customized noise and vibration-dampening auto parts; protective boots, gloves, and masks for military personnel and first-responders; and an emerging class of new products for other demanding industrial environments.

We turn rubber into value.

We are science-based, design-based, and engineering-based.

Any material is more valuable when you apply science, design and engineering. We do all three with dedication. AirBoss Rubber Compounding employs a brain trust of chemists and technical staff that maintain an extensive and growing library of custom compounds. At AirBoss Flexible Products, our staff of industrial and mechanical engineers is recognized for its ability to quickly design low-cost noise and vibration-dampening solutions primarily for North America's largest automakers. At AirBoss-Defense, our R&D staff have developed the next generation of protective gear for military personnel and others who work in hazardous chemical and biological conditions.

We invent better solutions.

We acquire and integrate successfully.

In fiscal 2013, AirBoss acquired Flexible Products in a $51-million deal that has exceeded our expectations. We anticipated added incremental revenues of approximately $110 million and EBITDA of $10 million. In fact, we have achieved $124.9 million in incremental revenues and $13.4 million of EBITDA. A strong automotive market has helped. So too have the synergies between Flexible Products and our other divisions. What we acquired in Flexible is a company with exceptional problem-solving talent and the in-house capabilities – in engineering, molding and tooling – to respond rapidly to the most demanding challenges of the automotive industry. More than ever, with this integration, AirBoss is a single company with connected and growing businesses.

All our businesses are
positioned for growth.

AirBoss Rubber Compounding:
High Quality, Low Cost

AirBoss Rubber Compounding is a market leader in North America with several key advantages over competitors: a strong technical staff, full on-site testing labs, and extremely efficient operations. Equipped to manufacture 400 million turn pounds of custom rubber compound annually, we are a low-cost producer renowned for product consistency and rapid turnaround. Traditional markets include mining, heavy-duty conveyor belts, infrastructure, cable & wire, tire & track, industrial, automotive, oil & gas and defense.

AirBoss Flexible Products:
Better Solutions to Bigger Problems

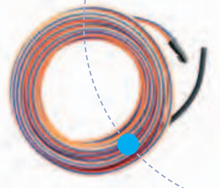
AirBoss Flexible Products is a leading supplier of molded and mold-bonded rubber parts to the North American automobile industry. We innovate rapidly with full in-house prototyping and testing capabilities and 75 injection-molding presses. Our location in Auburn Hills, Michigan, gives us convenient access to our largest customers, a distinct advantage in a just-in-time industry. Our many awards include two Gold Pentastars from Chrysler, Q1 status from Ford Motor Company, and, for three consecutive years, the coveted Supplier Quality Excellence award from General Motors.

AirBoss-Defense:
Next-Generation Products

AirBoss-Defense is a world leader in the design, development, and manufacture of chemical, biological, radiological, and nuclear (CBRN) personal protective equipment. We supply military and first-response forces worldwide with gloves, footwear, and gas masks for protection from CBRN agents and extreme cold weather. Strongly committed to R&D, we have a long history of partnering with government agencies to move new ideas and innovative technologies from the lab to the field. That research has paid off in the development of a next-generation gas mask to be introduced in 2015 and a new fire retardant protective glove.

AirBoss Engineered Products:
Developing New Markets for Rubber-Based Products

AirBoss Engineered Products develops, manufactures and markets high-quality rubber-based products using sophisticated manufacturing techniques such as extruding and calendering. We serve the military, industrial, mining, oil & gas, and tire sectors.



To Our Shareholders

2014 Highlights

- Successful integration of Flexible Products
- Net sales increased by 28.3% to $303.2 million
- EBITDA increase of 74.1% to $28.9 million
- EPS increased by 114.3% to US$0.60 from $0.28
- A strong balance sheet
- Generous working capital
- Increased executive talent
- Significant growth prospects

In 2014, AirBoss of America Corp. successfully integrated the largest acquisition of our history, Flexible Products, a leading automotive anti-vibration parts supplier, and we did so while increasing net income by 116% and earnings per share by 114%.

Outperforming Expectations

In this letter last year, we commented that, "Flexible has an excellent growth runway with new auto platforms, new products, and global growth opportunities. Flexible will add incremental revenues over $110 million and EBITDA of $10 million." In fact, the company's growth runway proved to be faster than anticipated, adding revenues of $125 million and EBITDA of $13.4 million.

Financial Strength

The acquisition, which was financed with debt, has not had a material impact on our balance sheet, which remains very healthy. We retire debt methodically. Net debt to EBITDA is 1.3, a significant improvement from 2.4 in 2013. Furthermore, we have a strong working capital ratio of 1.81, our dividend per share in 2014 was C$0.20 and we are generating significant free cash flow. Our return on equity almost doubled versus last year to 16%. Our share price at year-end had increased 58% and had almost doubled as of March 2015.

More Finished Products

Flexible Products represents a strategic intent at AirBoss to more fully integrate all our operations, while moving steadily toward producing a greater percentage of finished products. As sales at Flexible grew during the year, we also created more internal demand for our rubber compounds.

Progress In All Businesses

We are in three business segments with a common thread of rubber. Value is added in all of them through science, by developing custom rubber compounding formulations for use under demanding conditions, and through engineering, by designing rubber-based engineered products for our customers. In 2014, all our businesses made strong progress.

AirBoss Rubber Compounding

AirBoss Rubber Compounding is a North American leader. Operating margins improved during the year as a result of improved efficiencies within our facilities, although future margin gains earned this way will be more difficult to achieve.

We are starting to see the benefits of our efforts over the past few years to re-engineer the business by diversifying our customer base and being a leading supplier of higher-end compounds in new markets. Our challenge: grow capacity utilization. During 2014, 68% of capacity was used. As we increase utilization profitability will grow.

AirBoss Flexible Products

AirBoss Flexible Products rode another strong manufacturing year in the auto market with growth in both sales and margins. Macro-trends in the auto industry, such as the “light-weighting” of vehicles for greater fuel efficiency, bode well for growth. Lighter vehicles, some with aluminum frames, are more prone to vibration. Our expertise is solving that problem. Operational efficiencies remain an opportunity to further expand our margins. We believe further organic growth will come from international customers.

AirBoss Engineered Products

Our research and engineering capabilities grew in 2014 as we integrated the industrial and mechanical engineering capabilities of AirBoss Flexible Products. While mining-sector volumes continued to decline during the year, new products for the oil & gas sector were developed that we feel have a ready market.

Low U.S. military spending continues to hamper growth at AirBoss-Defense. However, thanks to aggressive R&D during the downturn, the latest AirBoss-Defense low-burden gas mask will be introduced in 2015. It offers a full-face visor, lighter weight, multiple-filter capability, and the best voice transmission of any NATO-approved mask. Soon to be introduced is a radically different high-performance CBRN glove that’s more comfortable and heat-resistant. With best-in-class products, AirBoss-Defense is ready for the inevitable upturn in military spending.

Management Changes

After a successful year, Tim Toppen stepped down as President of AirBoss of America Corp., assuming the role of Deputy Chairman. He will focus on key business relationships.

Lisa Swartzman was promoted to President. Lisa has 20 years of experience in manufacturing, distribution, and retail industries with large Canadian publicly traded companies and mid-sized American companies. She is a highly capable senior executive.

Robert Dodd was promoted to President, AirBoss Rubber Compounding and remains an Executive Vice President of AirBoss of America. Bob has been managing the Rubber Compounding division since 2006 and is responsible for its lean manufacturing, margin enhancement strategies and diversifying our customer base.

From left to right

P. G. Schoch, Chairman & CEO; Lisa Swartzman, President; Robert Dodd, President of Rubber Compounding; Yvan Ambeault, Executive VP of Engineered Products; Earl Laurie, President of Defense-Products; Doug Reid, President of Flexible Products; Wendy Ford, CFO

To Our Shareholders

Outlook

As we enter 2015, we have developed a three-year plan for growth to increase revenues and net income. These are our focus areas:

More Finished Goods
As the past year has demonstrated, our chemistry and engineering talents are best brought to bear on creating higher margin finished goods from our rubber compounds. That will continue.

More Capacity Utilization
We will push hard in 2015 to fill our unused capacity at AirBoss Rubber Compounding. Greater utilization represents high margin profitability we are determined to capture.

More Sophisticated Compounding
Our formulas add value. We will continue increasing that value by developing more specialized compounds for customers in sectors where we can significantly expand sales.

Continued Integration
There are more synergies to leverage between our companies. Cross-pollinating talent and ideas has proven fruitful in the development of products for the oil & gas industry. Our asset base of eight mixers and 75 injection-molding presses will be applied aggressively to open further opportunities.

Stabilized Defense Markets
We expect the defense market to remain soft but see some improvement in our business and don't anticipate further downside.

Continued Strength in Automotive Markets
The outlook for the automotive industry remains strong and we expect to continue benefiting as we look for opportunities to expand our presence internationally.

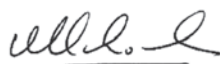
Margin Improvement
While we have improved margins at AirBoss Rubber Compounding, there remains promising margin-improvement opportunities within all of our divisions in 2015.

Global Growth
At AirBoss Flexible Products, we plan to accelerate growth through the introduction of new products in new geographic markets at competitive prices.

Acquisitions
Finding the right acquisition in a highly competitive market is not easy. We did it with Flexible. We are always looking for opportunities to do it again. We are prepared, with a strong balance sheet and available credit facilities, to act quickly when an opportunity is identified.

In Closing

In a year of remarkable progress and profit, we wish to thank our management both past and present, shareholders, employees, bankers, and investment bankers for their support. Together, we have much to look forward to in 2015.



P.G. Schoch
Chairman and CEO

Lisa Swartzman
President

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of AirBoss of America Corp. ("AirBoss" or the "Company") has been prepared as of March 18, 2015 and should be read in conjunction with the Consolidated Financial Statements and Notes for the year ended December 31, 2014 prepared in accordance with *International Financial Reporting Standards ("IFRS")*. All dollar amounts are shown in thousands of US dollars, except per share amounts, unless otherwise specified. Additional information regarding the Company, including its Annual Information Form, can be found on SEDAR at **www.sedar.com** and on the Company's website at **www.airbossofamerica.com**.

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

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

All of the forward-looking information in this Annual Report is expressly qualified by these cautionary statements. Investors are cautioned not to put undue reliance on forward-looking statements. All subsequent written and oral forward-looking statements attributable to AirBoss or persons acting on its behalf are expressly qualified in their entirety by this notice. Forward-looking information contained herein is made as of the date of this Annual Report and, whether as a result of new information, future events or otherwise, AirBoss disclaims any intent or obligation to update publicly these forward-looking statements except as required by applicable laws. Risks and uncertainties about AirBoss's business are more fully discussed under the heading "Risk Factors".

OVERALL PERFORMANCE

Management has been making conscious efforts to diversify our customer base, leverage our position as a leading supplier of higher end compounds into new end use markets and increasing the proportion of finished products in our portfolio. The improvements primarily in Rubber Compounding and our successful integration of Flexible Products ("Flexible") resulted in gross margins improving from 12.1% to 14.9% and EPS more than doubling over 2013 and has reinforced our commitment to this goal.

During 2014 we replaced and invested in future growth, including continued development of our next generation CBRN protective wear, by purchasing assets costing $6.8 million. The balance sheet is strong and remains in a position to support both organic growth and future acquisitions which will enhance shareholder value, and the market has noticed with the share price increasing significantly from 2013 (58% to the end of 2014, 83% to March 12, 2015).

The inclusion of a full year of Flexible's operations has positively impacted the Company's performance contributing to increased revenue, gross margins and overall profitability. Strength in the automotive sector is expected to continue into 2015.

AirBoss Engineered Products, which includes Defense, experienced weakness in the tire and defense categories. Defense was challenged by overall softness in government spending, particularly in the US. While we are gaining traction in overseas markets and the announcement in the third quarter of an approximately $15 million order from the US Department of Defense for CBRN protective overboots is encouraging, we expect the overall defense industry to remain weak in 2015.

Rubber Compounding volumes increased over 2013 but lower commodity prices, which are passed along to customers, and a higher proportion of tolling resulted in lower revenues. Operating profitability improved as a result of positive changes in product mix and operational efficiency programs. These, as well as increasing capacity utilization, will continue to be the focus in 2015.

Operational Highlights

- Net sales increased by 28.3% to $303.2 million
- Gross margin improved from 12.1% to 14.9%
- EPS increased by 114.3% to US $0.60 from $0.28
- EBITDA increased by 74.1% to $28.9 million
- Increasing quarterly dividend by 20% to CAD $0.06 per share

Selected Financial Information

In thousands of US dollars, except shares and per share amounts	**2014**	2013	2012
Financial results:			
Net sales	**303,151**	236,325	248,698
Net income	**13,725**	6,351	7,170
Net income per share			
– Basic	**0.60**	0.28	0.31
– Diluted	**0.60**	0.28	0.31
EBITDA (non-IFRS financial measure)	**28,948**	16,627	16,302
Net cash provided by (used in) operating activities	**15,545**	32,025	10,855
Dividends declared per share	**0.20**	0.20	0.1875
Capital expenditures	**6,832**	5,455	7,422
Financial position:			
Total assets	**188,906**	185,772	118,821
Term loan and other debt	**50,948**	57,113	9,336
Shareholders' equity	**90,035**	81,140	78,987
Outstanding shares	**22,998,760**	22,748,116	22,492,885
**22,998,760 at March 18, 2015*			

Non-IFRS Financial Measure

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

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

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

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

A reconciliation of this measure is presented below:

In thousands of US dollars	**2014**	2013
EBITDA:		
Net Income	**13,725**	6,351
Finance costs	**2,278**	1,196
Depreciation and amortization of intangible assets	**8,626**	6,599
Income tax expense	**4,319**	2,481
EBITDA	**28,948**	16,627

RESULTS OF OPERATIONS – 2014 compared to 2013

NET SALES

Net Sales increased by 28.3% in 2014 primarily from the impact of including Flexible Products ("Flexible") for the full year. This was partially offset by sales dollar declines in Rubber Compounding and AirBoss Engineered Products ("AEP"). The sales dollar declines in Rubber Compounding are largely the result of lower raw material costs, which are passed on to customers.

In thousands of US dollars		Rubber Compounding	AEP	Automotive	Total
Net Sales	**2014**	**133,352**	**44,868**	**124,931**	**303,151**
	2013	155,266	58,629	22,430	236,325
Increase (decrease) $		(21,914)	(13,761)	102,501	66,826
Increase (decrease) %		(14.1)	(23.5)	457	28.3

Rubber Compounding

For purposes of comparative analysis below, Rubber Compounding sales to Flexible prior to the acquisition have been removed for consistency with the elimination of these intercompany sales post acquisition. After eliminating intercompany sales, sales volume, expressed in pounds shipped, increased by 3.5% as compared to 2013, while revenues decreased by $9,217 over the same period. The decrease in sales was primarily a result of lower raw material prices, which were down approximately 12% over prior year, as savings were passed on to customers as well as an increase in tolling as a proportion of total volume.

Tolling volumes increased by 39.2% and tolling rates were down 8.8% compared to 2013. Volumes for the non-tolling portion of the business were down 2.0% versus 2013, with declines in off road tire ("OTR") retreading, other automotive and conveyor belts which were partially offset by increases in mining and oil & gas.

AirBoss Engineered Products

AEP sales decreased by $13,761 compared to 2013, of which $10,961 was due to lower volumes primarily in the tire and defense categories. The additional $2,799 decrease was primarily caused by price and product mix changes, including the shift by a major customer to supply its raw material requirements in a partially mixed form to AEP for final processing.

In the defense business, sales decreased by 32.1% primarily related to volume declines in CBRN overboots as a result of the expiration of a Department of Defense ("DoD") contract. Sales of other defense products, primarily gas masks and extreme cold weather footwear, increased by 22.5%. In August, 2014 a $15.3 million order for CBRN overboots was received from the DoD, the majority of which will be delivered in 2015.

Industrial Products sales decreased by 16.3% from 2013 as the result of a 2% volume decline and the shift by a major customer to supply its raw material requirements in a partially mixed form to AEP for final processing.

Automotive

Automotive product sales, through AirBoss Flexible Products (acquired in Q4 2013) were in line with expectations for 2014 and well ahead of the prior year's stub period results. Average prices received on a per unit basis are consistent with prior year.

RESULTS OF OPERATIONS – 2014 compared to 2013 (continued)

GROSS MARGIN

Gross margin for the year ended December 31, 2014 was $45,167 (2013: $28,706), an increase of $16,461 from 2013. This is largely attributable to a full year inclusion of Flexible Products in 2014 compared to the stub period in 2013, lower conversion costs in Rubber Compounding and continued focus on control over raw material purchases and manufacturing productivity initiatives. These were partially offset by the impact of lower volumes in Rubber Compounding and AEP.

In thousands of US dollars		Rubber Compounding	AEP	Automotive	Total
Gross Margin	**2014**	**17,169**	**9,400**	**18,598**	**45,167**
	2013	14,271	12,131	2,304	28,706
Increase (decrease) $		**2,898**	**(2,731)**	**16,294**	**16,461**
% of net sales	**2014**	**12.9**	**21.0**	**14.9**	**14.9**
	2013	9.2	20.7	10.3	12.1

Rubber Compounding

Gross margin for Rubber Compounding increased by $2,898 for the year compared to 2013 largely due to lower conversion costs. The gross margin percentage improved over 2013 through continued focus on productivity initiatives and greater control over raw material purchasing and the increased tolling volume as a proportion of the overall business mix.

AirBoss Engineered Products

Gross margin for AirBoss Engineered Products decreased by $2,731 compared to 2013 primarily due to lower volumes of CBRN overboots resulting from the expiry of a DoD contract.

Despite the volume decrease, the gross margin as a percent of sales improved due to cost reduction initiatives, control over raw material purchases and other production efficiencies that have been implemented.

Automotive

Automotive gross margin percentages for the year were better than expectations and well ahead of the prior year's stub period results. Margins as a percentage of sales improved as a result of manufacturing efficiencies implemented and product mix.

OPERATING EXPENSES

Operating expenses increased for the year by $6,167.

2014 operating expenses includes full year expenses of Flexible for $7,920 compared to only fourth quarter expenses of $1,526 in 2013 after it was acquired. This was partially offset by the decrease in expenses due to 2013 transaction costs of $2 million in acquiring Flexible last year. Equity based compensation expense increased by $1,642 due to the increased share price. This was offset by higher exchange gains of $790.

In thousands of US dollars		Rubber Compounding	AEP	Automotive	Unallocated Corporate Costs	Total
Operating Expenses	**2014**	**6,404**	**6,392**	**7,920**	**4,129**	**24,845**
	2013	8,922	5,915	1,526	2,315	18,678
Increase (decrease) $		(2,518)	477	6,394	1,814	6,167
% of net sales	**2014**	**4.8**	**14.2**	**6.3**	**N/A**	**8.2**
	2013	5.7	10.1	6.8	N/A	7.9

Rubber Compounding

For the year ended December 31, 2014 Rubber Compounding expenses decreased by $2,518 mainly due to decreases in professional fees by $1,922 because of 2013 transaction costs to purchase Flexible Products Company last year; compensation by $216, computer and equipment expenses by $163, travel expenses by $150, corporate charge of $94 and increase in other income of $191 reflecting a legal settlement and sale of product samples. These were partially offset by increases in depreciation of $72, other expenses of $9 and reduced R&D subsidies of $137.

AirBoss Engineered Products

For the year ended December 31, 2014 AEP's expenses increased by $477. Selling and marketing initiatives increased by $190, foreign exchange loss of $58 in 2014 from a gain of $110 in 2013 and an increase in R&D expenses by $247, net of government grants received. These were partially offset due to the decreases in administrative expenses of $24 and corporate charge of $104.

Automotive

For the year ended December 31, 2014, Automotive's full year operating expenses were $7,920 compared to only 74 days of 2013 for $1,526. These were largely in line with expectations. Automotive incurred year-to-date $6,526 in general and administrative expenses which include $1,600 in depreciation and amortization expense mostly related to amortization of customer relationships. Sales and marketing expenses were $1,180 and corporate charges were $310. These were offset by government grants of $96.

RESULTS OF OPERATIONS – 2014 compared to 2013 (continued)

Unallocated Corporate Costs

Unallocated corporate costs increased $1,814. General and administrative expenses increased by $2,301 due to additional employee costs of $1,642 (net of share options forfeited of $107) related to the stock appreciation rights plan and restricted stock units, increased salary and payroll costs of $610, professional fees of $176, meals and travel expenses of $153, and other expenses of $15. Also, other income was lower by $289. During 2013, the Company reversed the residual amounts owing to the defendants of a claim and recorded a recovery of $389 in other income. These were partially offset by increases in corporate charges of $112 and foreign exchange gains of $959 as a result of the declining Canadian dollar and its impact on the pension obligation and Canadian debt.

FINANCE COST

In thousands of US dollars		Rubber Compounding	AEP	Automotive	Corporate	Total
Finance cost	**2014**	**2,781**	**13**	**-**	**(516)**	**2,278**
	2013	1,146	366	-	(316)	1,196
Increase (decrease) $		1,635	(353)	-	(200)	1,082
% of net sales	**2014**	**2.1**	**-**	**N/A**	**N/A**	**0.8**
	2013	0.7	0.6	N/A	N/A	0.5

Finance costs in 2014 were $2,278 (2013: $1,196) for the year and were impacted by higher borrowing levels as a result of the acquisition of Flexible Products.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $4,319 (2013: $2,481) or an effective income tax rate for the year of 23.92% (28.20% in 2013). The statutory rate in Canada in 2014 was 25%.

The Company conducts business in the US and in Canada. Each jurisdiction is subject to different tax rates and the Company's effective tax rate varies depending on the mix and volume of business in each jurisdiction, as well as the impact of incentives, effect of permanent differences and the resolution of prior period tax assessments.

	Tax expense		Rate	
In thousands of US dollars	**2014**	2013	**2014**	2013
Expected AirBoss of America Corp. statutory rate	**4,898**	2,209	**25.0%**	25.0%
Foreign rate differential	**512**	(441)	**4.63%**	(6.54)%
Effect of permanent differences	**(433)**	405	**(2.4%)**	5.03%
Filing differences	**(793)**	(195)	**(4.4%)**	(2.29%)
Other	**135**	503	**1.09%**	7.00%
Actual tax	**4,319**	2,481	**23.92%**	28.20%

NET INCOME AND EARNINGS PER SHARE

Net income in 2014 amounted to $13,725 compared to $6,351 in 2013 primarily from the positive impact of Flexible. The basic and fully diluted net earnings per share were $0.60 (2013-$0.28) and $0.60 (2013-$0.28) based on basic and fully diluted shares outstanding of 22,859,987 (2013-22,711,106) and 22,934,903 (2013-22,803,692) respectively.

QUARTERLY INFORMATION

In thousands of US dollars			Net Income (loss) per share	
Quarter Ended	Net Sales	Net Income (loss)	Basic	Diluted
2014				
December 31, 2014	**78,043**	**3,603**	**0.16**	**0.16**
September 30, 2014	74,219	3,861	0.17	0.17
June 30, 2014	79,473	3,780	0.17	0.16
March 31, 2014	71,416	2,481	0.11	0.11
2013				
December 31, 2013	70,267	(779)	(0.03)	(0.03)
September 30, 2013	52,040	2,024	0.09	0.09
June 30, 2013	59,659	3,060	0.14	0.13
March 31, 2013	54,359	2,046	0.09	0.09

Items impacting comparability of quarters

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

RESULTS OF OPERATIONS – 2014 compared to 2013 (continued)

Fourth Quarter 2014

Net sales in the fourth quarter of 2014 increased by $7,776 compared to 2013 due to the following factors:

- Increases of $9,835 sales for Automotive products and $105 for Rubber Compounding partially offset by $2,164 lower sales of AEP; Industrial and Defense products sales decreased by $1,789 and $375 respectively.

Gross margin increased $3,622 from 11% to 15%

- Rubber Compounding and Automotive products gross margins increased by $1,539 and $2,188 respectively due to increases in volume;
- AEP margins decreased by $105 due to lower sales volumes.

Operating expenses decreased by $1,057 mainly due to $2 million transaction costs incurred in 2013 for the acquisition of acquiring Flexible Products. This was partially offset by increases in:

- Automotive products costs $347
- Higher corporate cost of $277
- Rubber Compounding cost of $265
- AEP cost of $54

Tax expense decreased by $324 mainly due to differences arising on filing and assessments.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company expects to fund its 2014 operating cash requirements, including required working capital investments, capital expenditures and scheduled debt repayments from cash on hand, cash flow from operations and committed borrowing capacity. The operating facility provides financing up to $40 million (2013: $40 million). No amount was drawn against this facility at December 31, 2014.

For the period ended December 31, 2014, $15,545 of cash was provided by operations, (2013: $32,025) $9,190 (2013: $60,034) was used for investing activities and $10,205 (2013: $43,741 provided) was used in financing activities. Cash and cash equivalents decreased by $3,765 from $16,904 to $13,139 adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

The factors contributing to the changes in cash from operating activities compared to 2013 include:

- Higher income of $7,374 primarily related to Flexible Products, partially offset by lower income in AEP;
- Higher finance costs of $1,082 as a result of additional loans after acquiring Flexible;
- Higher tax expense of $1,838;
- Cash used for working capital was $8,334 (2013: $18,713 provided) for the period ended December 31, 2014

Accounts Receivable increased by $54 after eliminating the foreign exchange impact of $141 due to revaluation of CAD receivables. $2,628 is due to an increase in Rubber Compounding brought about by extended credit terms with certain customers and Corporate by $5. This is offset by the decreases in Engineered Products of $2,222 brought about by lower sales and Automotive by $498. 83% of outstanding receivables are within credit terms compared to 50% at December 31, 2013, Automotive seeing the biggest improvement.

Inventory at Rubber Compounding has increased by $942 due to timing of purchase deliveries and pounds on hand have increased year-over-year. AEP had built up inventory for shipments in the first quarter of 2015, accounting for their increase in inventory of $1,831. Inventory of Automotive has increased $2,962 reflecting the increase in volume of sales.

Prepaid expenses increased $303 reflecting higher prepayments mainly by Automotive and Rubber Compounding compared to the prior year.

Accounts payable decreased $2,242 due to timing of payments.

Income tax paid was $4,319, $1,838 higher compared to 2013 from the timing of required remittances and utilization of taxable losses in certain jurisdictions.

The Company paid interest of $2,170 in 2014 (2013: $686).

Investing Activities

Acquisition of subsidiary

On October 18, 2013, all the outstanding shares of Flexible Products Co. were acquired for $54,579 (net of cash) financed with a new syndicated debt facility led by the Company's existing banker.

Property, Plant and Equipment

In 2014, Rubber Compounding invested $112 in North Carolina's equipment utilization improvement projects, $50 to support growth, and $40 to support health and safety. In Kitchener, $123 was invested in growth, support and health and safety and $1,695 to replace manufacturing equipment and capital improvements.

AEP invested $2,728 in property, plant and equipment. Of this, $74 was invested to replace industrial products machinery and equipment, $222 for cost savings initiatives, and $2,432 mainly to support growth, health and safety and product research.

Flexible invested $831 to purchase machinery and equipment for growth initatives, $632 to replace machinery and upgrade system requirements, and $10 for cost savings initiatives.

Intangible assets

The Company invested $199 (2013: $504) in software to support customer requirements, management, costing, maintenance and ancillary systems.

Other investments including derivatives

Other assets increased $2,299 as a result of the Company's loan to officers for $1,774 and as a result of the Company's investment in the form of a convertible promissory note for $550.

Financing activities

On October 18, 2013, concurrent with the acquisition of all the outstanding shares of Flexible Products Co., AirBoss entered into a syndicated debt facility led by its existing banker to refinance the business. The new facility is comprised of a US$25 million senior secured multi-currency revolver, a US$15 million senior secured revolving credit facility, a US$45 million senior secured term loan, a C$8.7 million fixed rate term loan and a C$5 million fixed rate term loan. Proceeds of the credit facilities were used to refinance all existing loans of the Company, for the acquisition of Flexible Products and associated transaction costs, and for general corporate purposes. $40.0 million (2013: $39.2 million) of this facility is unused as at December 31, 2014; no amounts were drawn against the facility in 2014 (2013: $0.8 million).

Under the new credit agreement, the Company has the ability to borrow an additional US $40 million from its syndicate partners.

During the year 2014, the required principal repayments of $5,413 (2013: $649) were made pursuant to the term loan agreement.

The Company paid dividends of $4,193 during 2014 (2013: $4,419). During 2013 and 2014, the Company did not purchase shares for cancellation under a Normal Course Issuer Bid.

Commitments and contractual obligations

The Company's contractual obligations as at December 31, 2014 are summarized below:

	Payments Due In						
	2015	**2016**	**2017**	**2018**	**2019**	**Thereafter**	**Total**
Term loan and other debt	11,663	5,913	5,912	27,910	-	-	51,398
Operating leases - equipment	335	242	186	70	5	-	838
Operating leases - premises	1,154	1,050	1,050	1,050	838	-	5,142
Purchase obligations	3,625	-	-	-	-	-	3,625
Total	16,777	7,205	7,148	29,030	843	-	61,003

The Company has inventory purchase commitments at the end of 2014 for its AEP and Rubber Compounding business segments of $2.0 million and $1.6 million (2013: $1 million and $1.6 million) respectively.

Government assistance

During the year 2014, AEP recognized grants of $1,401 to support certain initiatives (2013: $1,538) which were offset against expenses. In addition, $nil (2013: $108) was recognized from the province of Quebec in respect of capital. Capital assets were adjusted accordingly. During the year 2014, the Rubber Compounding division recognized $35 (2013: $121) to mainly support job creation which was offset against expenses.

Scientific research and investment tax credits of $815 were recognized in 2014 (2013: $927); R&D costs were adjusted accordingly. In addition, $39 (2013: $110) was recognized as a reduction to capital assets in respect of provincial tax credit.

Dividends

A quarterly dividend of $0.05 per share was declared on November 5, 2014 and paid January 15, 2015. Total dividends declared during 2014 were $0.20 per common share compared to $0.20 per common share in 2013.

Outstanding shares

As at March 18, 2015 the Company had 22,998,760 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

Included in the operating lease commitments was a rental agreement for corporate office space between the Company and a company controlled by the Chairman of the Company. The monthly lease rate approximates fair market rental value. During the year, the Company paid rent for the corporate office of $164 (2013: $175).

During the year, the Company paid fees for the use of a facility in South Carolina of approximately $21 (2013: $21) to a company in which the Chairman is an officer.

In addition, AirBoss Flexible Products Co. paid rent of $1,050 to a company controlled by an employee of the Company to utilize its facilities. Rent paid to this related party for the period October 19, 2013 to December 31, 2013 was $211.The lease provides for monthly payments equivalent to an annual rental of $1,050 and expires in 2019.

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management includes directors (executive and non-executive), CEO, CFO and division heads. The compensation expense to key management for employee services is shown below:

December 31 *In thousands of US dollars*	**2014**	2013
Salaries and other short term benefits	**2,784**	1,582
Pension/Post-employment benefits	**(38)**	91
Share-based payment expense	**2,822**	1,283
	5,568	2,956

The amounts disclosed in this table are the amounts recognized as operating expenses for accounting purposes during the period and do not necessarily represent amounts receivable or received in cash.

The Company's executive compensation plan consists of base salary, performance bonuses, and long-term compensation including stock options, restricted stock units (subject to shareholder approval), stock appreciation rights and retirement benefits.

Key management and directors own 27.9% of the outstanding common shares.

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

During the year, interest income on this convertible promissory note of $32 (2013: $nil) is recorded on the statement of financial position included in other assets and recorded on the statement of income as interest income.

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

During the fourth quarter of 2014, the Company provided share purchase loans of $1,000 CAD each to both the President and Chief Financial Officer to purchase the Company stock. The promissory notes are due upon the earlier of the disposition date of all or any part of the pledged securities or November 24, 2019. The promissory notes bear interest at 1% annually with full recourse and interest is due and payable semi-annually. 201,000 shares of the Company having a fair value of $2,117 were pledged as collateral. At December 31, 2014, the promissory notes of $1,776, including accrued interest of $2, were included in other assets.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

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

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

CRITICAL ACCOUNTING ESTIMATES

The Company's preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The Company's estimates are based upon historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of the Company's ongoing evaluation of these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amounts for revenues and expenses. Actual results may differ from these estimates under different assumptions. These estimates and assumptions are affected by management's application of accounting policies.

CRITICAL ACCOUNTING POLICIES

The Company's critical accounting policies are those that affect our Consolidated Financial Statements materially and involve a significant level of judgment by the Company. A summary of the significant accounting policies, including critical accounting policies, is set forth in Note 3 to the Consolidated Financial Statements. The Company's critical accounting estimates include valuation of accounts receivable and inventory, valuation of goodwill and other long-lived assets, accounting for income taxes, government assistance and other debt.

Valuation of Accounts receivable

No material bad debt provisions were required in 2014 and 2013.

Valuation of inventory

The majority of the Company's products are manufactured against orders and inventory on hand is primarily raw materials or finished goods awaiting shipment or customer release.

A provision for obsolete inventory is established based on materials on hand that can no longer be used for customer orders based on a review of historical and forecasted sales, as well as a technical review to see if such materials can be reworked.

Management reviews the carrying cost of its inventory to ensure it is measured at the lower of cost and net realizable value by examining current replacement cost and the quoted pricing to customers over the estimated time frame to consume the inventory on hand and irrevocable commitments.

The Company's provision for obsolete inventory and the write-down of inventory to net realizable value may require an adjustment should any of the above factors change.

At December 31, 2014, a reserve for impaired inventory in Rubber Compounding represents $368 (2013: $500). AEP maintains a provision of $590 (2013: $503) related to certain styles and sizes of protective wear. Automotive recognized $122 (2013: $100) as a reserve for impaired inventory.

Valuation of Goodwill

The Company reviews and evaluates our goodwill for impairment when an indicator of impairment exists in the associated cash generating units, but at least on an annual basis. In determining whether impairment has occurred in one of the Company's cash generating units, management compares the cash generating unit's carrying value to its recoverable amount based on value in use. Value in use was determined by the future cash flows generated from the continuing use of the unit. The calculations are most sensitive to the discount rate and growth rate. Determination of growth rate is based on a number of assumptions arising from the most current financial performance of each cash generating unit, the upcoming annual budget for each reporting unit and the historical variability of earnings. Other factors, such as any foreign exchange volatility and volatility in world markets for rubber and carbon black can also materially alter our expectations. Accordingly, management's judgment is required to determine whether these factors at any one point in time and in light of business initiatives, suggest a major change, positive or negative, to the prospects of the business and, therefore, to the valuation of goodwill. No impairment charge was required in 2014 or 2013.

Other Long-lived Assets

The Company reviews and evaluates long-lived assets for impairment when events or changes in economic and other circumstances indicate that the carrying value of such assets may not be fully recoverable. The net recoverable value of an asset, or cash generating unit, is calculated as the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. Future net cash flows are developed using assumptions that reflect the planned course of action for an asset given management's best estimate of the most probable set of economic conditions. Inherent in these assumptions are significant risks and uncertainties. In the view of management, there are no indicators of impairment based on assumptions which they believe to be reasonable and no impairment charge was recorded in 2014 and 2013.

Accounting for Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the Consolidated Financial Statements. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and future tax liabilities and assets for the future tax consequences of events that have been recognized in the Consolidated Financial Statements or tax returns. In determining both the current and deferred components of income taxes, the Company interprets tax legislation in a variety of jurisdictions, as well as makes assumptions about the expected timing of the reversal of deferred tax assets and liabilities and recognition of deferred tax assets is based on a probable criteria. If its interpretations differ from those of tax authorities or if the timing of reversals is not as anticipated, the provision or relief for income taxes could increase or decrease in future periods. Additional information regarding our accounting for income taxes is contained in Note 15 to the Consolidated Financial Statements. Deferred tax assets have been recorded relating to loss carry-forward amounts as management believes it is more likely than not that these will be used before expiration.

Government Assistance

Management evaluates its best estimates of the amount of government grants recoverable at each reporting date as an offset against the related expense or capital expenditure, under the terms of agreements or based on its interpretation of existing government programs. If its interpretations differ from those of the relevant tax authorities or program administrators, the amount recoverable may increase or decrease in future periods.

FINANCIAL INSTRUMENTS

Foreign exchange hedge

At December 31, 2014, the Company had contracts to sell US $10,460 in 2015 for CAD $12,000. The fair value of these contracts, representing a loss of $116 is recorded on the statement of income as expense. There were no forward contracts outstanding at December 31, 2013.

Interest rate swap

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

During 2014, the net interest expense of the swap agreement was $159 and $136 was paid.

For the period ended December 31, 2014, the fair value of this agreement, representing a loss of $76 is recorded on the statement of financial position included in loans and borrowings and recorded on the statement of profit as finance costs.

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

RISK FACTORS

Impact of Economic Cycle

The demand for the Company's products can vary in accordance with general economic cycles and the economic conditions of the industry sectors that are served by the Company. In addition, such industry sectors are cyclical in nature. The Company is particularly sensitive to trends in the automotive, tire, energy generation, construction, mining and transportation industries because these industries are significant markets for the Company's business and are highly cyclical. In a severe economic slowdown, prices for coal, copper and other mined materials may fall, affecting demand for conveyor belting, off-road retread tires and other rubber products manufactured by our customers out of rubber compounds manufactured by AirBoss.

Dependence on Key Customers and Contracts

From time to time, a significant portion of the Company's sales for a given period may be represented by a small number of customers. In 2014, one customer represents 10% (2013 –15%) of total sales. Five customers represented 30% of sales in 2014 (2013 – 39%). 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.

Raw Materials and Inventory

The Company depends on certain outside sources for raw materials used in the production of its products, the price and availability of which are subject to market conditions. As a result, any unforeseen shortage of such raw materials could delay delivery, increase costs and decrease profitability. This occurred in 2008 and recurred in 2011 as the world-wide production of key materials such as synthetic rubber and carbon black did not keep up with demand. The Company was not subject to shortages at that time as it maintains supply sources in different areas of the world. This cannot be relied upon to avoid shortages in the future.

Raw material markets have been extremely volatile with key materials doubling or halving in price within a short period. Excess inventory or shortages could prove costly to the Company in these markets.

The Company does not have long-term supply contracts with its suppliers and purchases most raw materials on a purchase order basis. The price of many raw materials, such as carbon black and synthetic rubber, ethylene propylene diene monomer ("EPDM") and silicone is directly or indirectly affected by factors such as exchange rates and the price of oil. Although the Company attempts to pass price changes in raw materials on to its customers, it may not always be able to adjust its prices, especially in the short-term, to recover the costs of increased raw material prices. Conversely, if raw material prices decrease significantly and rapidly, the Company may be at risk to recover the cost of any inventory purchased based on demand at higher prices.

The following table approximates the financial impact (assuming changes are not passed along to its customers) on the Company of a 10% increase in the cost of its most critical raw materials based upon purchases made in the respective years:

$Millions	Earnings before tax	
Increase (decrease)	**2014**	2013
Natural and synthetic rubber	**(2.89)**	(3.9)
Carbon black	**(2.06)**	(1.5)
EPDM	**(0.69)**	-
Silicone	**(0.83)**	-
	(6.47)	(5.4)

Weather

The Company uses natural rubber in the manufacture of certain rubber products. Weather conditions impact the harvesting season and supply of natural rubber.

Certain products are acquired overseas by ocean freight. Weather conditions can impact timely delivery.

Competition

The Company competes directly against major North American companies in the custom rubber compounding, automotive and industrial rubber product market segments. Some of these companies have strong established competitive positions in these markets. In the case of rubber compounding, the industry leader may have greater resources, both financial and technical, than the Company and has long-standing relationships with some of the Company's prospective customers using well-established marketing and distribution networks. Furthermore, since there is a commodity-like element to certain segments of the Company's rubber mixing business, the customers of this business are price sensitive and may be able to purchase their requirements elsewhere in a relatively short period of time. The Company competes with international companies who may also have greater financial resources or who may be sheltered by domestic tariffs.

Currency Exposure

The Company has revenues and expenses denominated in both Canadian ("CAD") and US ("USD") dollars. In addition, the cost to the Company of certain key raw materials and other expense items and the competitiveness of prices charged by the Company for its products will be indirectly affected by currency fluctuations. Changes in the value of the Canadian dollar relative to the US dollar could have a material positive or adverse effect on the Company's results of operations.

The Company reviews its currency exposure positions from time to time and reacts accordingly by increasing or decreasing the proportion of operating or term loan denominated in CAD funds as a natural balance sheet hedge or establishing forward contracts to purchase CAD funds to manage its foreign exchange risk related to cash-flow. However, there is no assurance that such strategies will be successful or cost effective and the profitability of the Company's business could be adversely affected by currency fluctuations. The following table approximates the following impact on the Company of a $0.10 decrease in the value of one CAD dollar in the Company's USD functional currency (million):

$Millions	Earnings before tax	
Increase (decrease)	**2014**	2013
Sales (1)	**(3.1)**	(3.5)
Purchases (2)	**5.8**	6.2

(1) Based upon Canadian dollar-denominated sales in 2014.

(2) Based upon combined 2014 Canadian purchases and expenses.

Environmental

The Company handles various chemicals and oils in its manufacturing process, the nature of which may expose it to risks of causing or being deemed to have caused environmental or other damages. While its use of potentially hazardous materials is limited, the Company ensures that its operations are conducted in a manner that minimizes such risks and maintains insurance coverage considered reasonable by management. To date, no regulatory authority has required the Company to pay any material fines or remediation expenses in connection with any alleged violation of environmental regulation. However, there can be no assurance that future environmental damage will not occur or that environmental damage due to prior or present practices will not result in future liabilities. The Company is subject to environmental regulation by federal, provincial, state and local authorities. While management believes that the Company is in substantial compliance with all material government requirements relating to environmental controls on its operation, changes in such government laws and regulations are ongoing and may make environmental compliance increasingly expensive. It is not possible to predict future costs, which may be incurred to meet environmental obligations.

Product Liability and Warranty Claims

As a manufacturer of rubber-based products, the Company faces a risk of product liability and warranty claims. Although the Company carries commercial general liability insurance in an amount considered reasonable by industry standards, any claim which is successful and is not covered by insurance or which exceeds the policy limit could have an adverse effect on the Company. Warranty claims have not been material and are within industry standard expectations.

Capacity and Equipment

The rubber compounding facilities have an annual capacity to produce approximately 250 million pounds at the current product mix.

The Company remains committed to continuous maintenance and upgrading of its equipment. Critical equipment remains not only in a high state of repair, but is also technologically up to date so that the Company is able to ensure the reliability of supply at competitive prices and at a high quality standard.

The Company has also made investment in capacity and efficiency in its Acton operations. In recent years, the Company purchased molds and injection equipment and established a production facility in Vermont to enhance its presence in protective products, such as CBRN protective gloves, defense footwear and gas masks. The recent acquisition of Flexible increased the number of rubber injection molding presses; continued growth will use up any existing excess capacity.

Should additional equipment be required to fulfill any substantial increases in sales, it can be readily sourced in the market.

LITIGATION

In 2004, the Company commenced an Action in the Superior Court of Quebec claiming funds due pursuant to the 1999 Agreement of Purchase and Sale whereby AirBoss acquired the assets of Acton International Inc.

The Company had been informed that an appeal was filed relating to the Judge's decision to award the Company 100% of its claim for environmental costs reimbursement. This appeal was heard in May, 2013 and a unanimous ruling dismissing the claim in its entirety with costs against the defendants was issued. During the second quarter of 2013, the Company reversed the residual amounts owing to the defendants and recorded a recovery of $389 in other income. As at November 1, 2013, the Defendants are indebted towards the Plaintiffs for an amount of CAD $443; efforts to collect are underway. The amount has not been accrued for.

DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the fiscal year of the Company, an evaluation was carried out under the supervision of and with the participation of the Company's management, including our Chief Executive Officer/Chairman and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as of December 31, 2014, the end of the period covered by management's discussion and analysis, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by officers within those entities.

The Company's Chief Executive Officer/Chairman and its Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures. The Disclosure Committee, composed of senior managers of the Company, assists the CEO and CFO in evaluating the information and appropriateness of material subject to public disclosure.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has designed internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with IFRS in its consolidated financial statements. The CEO/Chairman and the CFO have supervised management in the evaluation of the design and effectiveness of the Company's internal controls over financial reporting as at December 31, 2014 and believe the design and operating effectiveness of the internal controls to be sufficient to provide such reasonable assurance.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent period, there have been no changes in the Company's existing 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.

During the year, management implemented and assessed internal controls and financial reporting at AirBoss Flexible Products Co.

OUTLOOK

Rubber Compounding continued to experience weakness in some of its traditional markets, particularly off road tires ("OTR"), tire retreading and conveyor belts, however, these were more than offset with increases in other industry segments and tolling. We do not expect these circumstances to change materially in the coming year and we intend to continue focusing our efforts on diversifying our customer base and as a leading supplier of higher end compounds into new end use markets. Engineered Products, which includes Defense, was challenged both in the quarter and the full year by overall softness in defense spending, particularly in the US. We are gaining traction in overseas markets and the announcement in the third quarter of an approximately $15 million order from the US Department of Defense for CBRN protective overboots is encouraging; however, we expect the overall defense industry to remain weak in 2015. The Automotive business benefited from the strength in US auto manufacturing and expects this to continue in 2015.

As we look to 2015, we are enthusiastic about the opportunities before us. Our focus is on optimizing our capacity utilization, additional manufacturing and operational efficiency initiatives and strategic growth both organically and through potential acquisitions.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of AirBoss of America Corp. and all the information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared by management, in accordance with IFRS. When alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented in this annual report and has ensured that it is consistent with that presented in the financial statements.

AirBoss of America Corp. maintains systems of internal accounting and administrative controls consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and all members are outside directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers the engagement or re-appointment of the external auditors for review by the Board and approval by the shareholders.

KPMG LLP, the Company's external auditors, who are appointed by the shareholders, audited the consolidated financial statements as of and for the years ended December 31, 2014 and December 31, 2013 in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. KPMG LLP has full and free access to the Audit Committee.

March 18, 2015

P.Gren Schoch
Chairman and Chief Executive Officer

Wendy Ford
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of AirBoss of America Corp.

We have audited the accompanying consolidated financial statements of AirBoss of America Corp., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

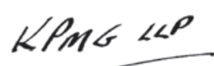
Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AirBoss of America Corp. as at December 31, 2014 and December 31, 2013 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants, Licensed Public Accountants

March 18, 2015
Toronto, Canada

Consolidated Statement of Financial Position

In thousands of US dollars	*Note*	**December 31, 2014**	December 31, 2013
ASSETS			
Current assets			
Cash and cash equivalents		**13,139**	16,904
Trade and other receivables	*5*	**42,546**	42,633
Prepaid expenses		**2,536**	2,277
Inventories	*6*	**39,655**	33,920
Current income taxes receivable		**652**	-
Total current assets		**98,528**	95,734
Non-current assets			
Property, plant and equipment	*7*	**55,334**	55,418
Intangible assets	*8*	**32,277**	33,987
Other assets	*9*	**2,767**	468
Deferred income tax assets	*15*	**-**	165
Total non-current assets		**90,378**	90,038
Total assets		**188,906**	185,772
LIABILITIES			
Current liabilities			
Loans and borrowings	*11*	**11,663**	5,440
Trade and other payables, including derivatives		**38,437**	39,789
Employee benefits	*18*	**1,445**	2,330
Provisions	*12*	**2,956**	-
Current income taxes payable		**-**	255
Total current liabilities		**54,501**	47,814
Non-current liabilities			
Loans and borrowings	*11*	**39,285**	51,673
Employee benefits	*18*	**434**	489
Provisions	*12*	**280**	898
Deferred income tax liabilities	*15*	**4,371**	3,758
Total non-current liabilities		**44,370**	56,818
Total liabilities		**98,871**	104,632
EQUITY			
Share capital	*13*	**37,784**	37,325
Contributed surplus	*13*	**1,074**	1,735
Retained earnings		**51,177**	42,080
Total equity		**90,035**	81,140
Total liabilities and equity		**188,906**	185,772

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

On behalf of the Board

P.G. Schoch
Director

Robert L. McLeish
Director

AirBoss of America Corp.

Consolidated Statement of Income

For the year ended December 31 *In thousands of US dollars*	*Note*	**2014**	2013
Revenue		**303,151**	236,325
Cost of sales	*6*	**(257,984)**	(207,619)
Gross profit		**45,167**	28,706
General and administrative expenses	*4*	**(19,815)**	(14,110)
Selling and marketing expenses		**(5,131)**	(4,251)
Research and development expenses	*16*	**(1,563)**	(1,290)
Other income		**1,664**	973
Operating expenses		**(24,845)**	(18,678)
Results from operating activities		**20,322**	10,028
Finance costs	*11,18*	**(2,278)**	(1,196)
Profit before income tax		**18,044**	8,832
Income tax expense	*15*	**(4,319)**	(2,481)
Profit for the year		**13,725**	6,351
Earnings per share			
Basic	*14*	**0.60**	0.28
Diluted	*14*	**0.60**	0.28

Consolidated Statement of Comprehensive Income

For the year ended December 31 *In thousands of US dollars*	**2014**	2013
Profit for the year	**13,725**	6,351
Other comprehensive income		
Items that will never be reclassified to profit or loss		
Defined benefit plan actuarial gains/(losses)	**(489)**	120
Other comprehensive income for the year, net of income tax of $168 (2013: $41)	**(489)**	120
Total comprehensive income for the year	**13,236**	6,471

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company			
In thousands of US dollars	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance at January 1, 2013	37,090	1,925	39,972	78,987
Total comprehensive income for the year				
Profit for the year	-	-	6,351	6,351
Other comprehensive income				
Defined benefit plan actuarial gains net of tax of $41	-	-	120	120
Total comprehensive income for the year	-	-	6,471	6,471
Contributions by and distributions to owners				
Stock options expensed	-	477	-	477
Normal Course Issuer Bid	235	(667)	-	(432)
Dividends to equity holders	-	-	(4,363)	(4,363)
Total contributions by and distributions to owners	235	(190)	(4,363)	(4,318)
Balance at December 31, 2013	37,325	1,735	42,080	81,140

	Attributable to equity holders of the Company			
In thousands of US dollars	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance at January 1, 2014	37,325	1,735	42,080	81,140
Total comprehensive income for the year				
Profit for the year	-	-	13,725	13,725
Other comprehensive income				
Defined benefit plan actuarial gains net of tax of $168	-	-	(489)	(489)
Total comprehensive income for the year	-	-	13,236	13,236
Contributions by and distributions to owners				
Stock options expensed	-	503	-	503
Share options exercised	459	(1,057)	-	(598)
Share options forfeited	-	(107)	-	(107)
Dividends to equity holders	-	-	(4,139)	(4,139)
Total contributions by and distributions to owners	459	(661)	(4,139)	(4,341)
Balance at December 31, 2014	37,784	1,074	51,177	90,035

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31 *In thousands of US dollars*	*Note*	**December 31, 2014**	December 31, 2013
Cash flows from operating activities			
Profit for the year		**13,725**	6,351
Adjustments for:			
Depreciation	*7*	**6,440**	5,816
Amortization of intangible assets	*8*	**2,165**	740
Loss on disposal of property, plant and equipment	*7*	**21**	43
Gain on pension settlement	*18*	**(128)**	-
Finance costs	*11,18*	**2,278**	1,196
Change in fair value of interest swaps	*10*	**76**	-
Unrealized foreign exchange gains		**(1,395)**	(1,055)
Share-based payment expense	*13*	**3,032**	1,281
Share options forfeited		**(107)**	-
SRED tax credits	*16*	**(854)**	(1,094)
Current income tax expense	*15*	**3,372**	4,143
Deferred income tax expense	*15*	**947**	(1,662)
Litigation settlement	*17*	**-**	(389)
Post-retirement benefits expense	*18*	**(36)**	(39)
		29,536	15,331
Change in inventories		**(5,735)**	8,600
Change in trade and other receivables		**(54)**	7,581
Change in prepayments		**(303)**	(764)
Change in trade and other payables		**(2,242)**	3,296
Net change in non-cash or working capital balances		**(8,334)**	18,713
Interest paid		**(2,170)**	(686)
Income tax paid		**(3,487)**	(1,333)
Net cash provided by operating activities		**15,545**	32,025
Cash flows from investing activities			
Acquisition of property, plant and equipment	*7*	**(6,633)**	(4,951)
Acquisition of intangible assets	*8*	**(199)**	(504)
Acquisition of subsidiary (2013: net of cash acquired of $3,277)	*4*	**-**	(54,579)
Acquisition of other investments	*9*	**(582)**	-
Share purchase loans	*20*	**(1,776)**	-
Net cash used in investing activities		**(9,190)**	(60,034)
Cash flows from financing activities			
Repayment of borrowings		**(5,413)**	(649)
Proceeds from long term borrowings		**-**	49,242
Proceeds from exercise of share options		**-**	146
Tax Paid on exercise of share options		**(599)**	(579)
Dividends paid	*13*	**(4,193)**	(4,419)
Net cash provided by (used in) financing activities		**(10,205)**	43,741
Net increase (decrease) in cash and cash equivalents		**(3,850)**	15,732
Cash and cash equivalents at January 1		**16,904**	1,247
Effect of exchange rate fluctuations on cash held		**85**	(75)
Cash and cash equivalents at December 31		**13,139**	16,904

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Amounts in thousands of US dollars, except per share amounts, unless otherwise specified)

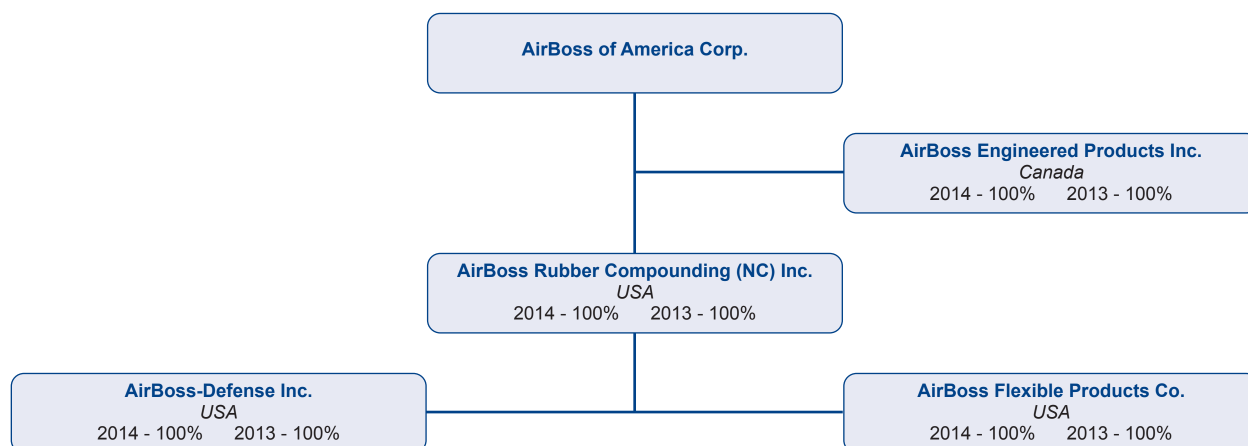
NOTE 1 REPORTING ENTITY

AirBoss of America Corp. ("the Company") is a public company listed on the Toronto Stock Exchange, incorporated and domiciled in Canada. The address of the Company's registered office is 16441 Yonge Street, Newmarket, Ontario, Canada. The consolidated financial statements of the Company as at and for the year ended December 31, 2014 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group has operations in Canada and the US and primarily is involved in the manufacture of high quality rubber-based products to resource, military, automotive and industrial markets (see Note 19).

Subsidiaries are consolidated based on control which is assessed on whether the Company has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

List of Subsidiaries

Set out below is a list of significant subsidiaries of the Company.



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

AirBoss, through its AirBoss Rubber Compounding division and its wholly-owned subsidiary AirBoss Rubber Compounding (NC) Inc. (collectively, "ARC"), is engaged in custom rubber compounding, supplying mixed rubber for use in mining, transportation, industrial rubber products, military, automotive, conveyor belting, and other products, primarily in North America.

AirBoss Produits d'Ingénierie Inc./AirBoss Engineered Products Inc. ("AEP" or "AirBoss Engineered Products"), formerly Acton International Inc., of Acton-Vale, Quebec, and AirBoss-Defense Inc. (together called "AEP") are world leaders in the development and sale of Chemical, Biological, Radiological and Nuclear ("CBRN") protective rubber wear for military and first response applications. AEP also produces calendered and extruded rubber products used by its customers in the manufacture of industrial products and recreational vehicles. AirBoss-Defense Inc. is located in Vermont, USA and was established to produce certain injection mold defense products.

AirBoss Flexible Products Co., formerly Flexible-Products Co., was acquired by AirBoss Rubber Compounding (NC) Inc. on October 18, 2013 and is a leading supplier of innovative and cost-effective anti-vibration solutions to the North American automotive market. AirBoss Flexible Products designs, engineers and manufactures rubber and synthetic rubber products, such as bushings, dampers, boots and isolators that are used to eliminate or control undesired vibration and noise, to enhance interior comfort, quality, increase the durability of a vehicle, and improve the overall experience of a vehicle's passengers.

NOTE 2 BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Consolidated financial statements were authorized for issue by the Board of Directors on March 18, 2015.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- certain property, plant and equipment was re-measured at fair value on the adoption of IFRS
- forward contracts are measured at fair value
- liabilities for cash settled share-based payment arrangements are initially and thereafter measured at fair value
- equity settled share based payment arrangements are measured at fair value at the grant date
- recognition of future income taxes on foreign exchange differences where the currency of the tax basis on non-monetary assets and liabilities differ from the functional currency
- the employee benefit liability is recognized as the net total of the plan assets, at fair value, less the present value of the defined benefit obligation

(c) Functional and presentation currency

These consolidated financial statements are presented in US dollars ("USD"), which is the Company's functional currency. All financial information presented in US dollars has been rounded to the nearest thousands, except when otherwise indicated.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Significant areas requiring the use of estimates include valuation of accounts receivable, inventory, intangibles, accounting for income taxes, share-based payments, measurement of post-retirement benefits and fair value of assets acquired through business combination. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 4 – business acquisition

Note 5 – trade and other receivables

Note 6 – inventories

Note 8 – intangible assets

Note 15 – income taxes

Note 16 – government assistance

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 8 – key assumptions used in discounted cash flow projections for impairment of intangible assets;

Note 12 – provisions;

Note 13 – capital and other components of equity;

Note 15 – utilization of tax losses;

Note 17 – commitments and contingencies; and

Note 18 – measurement of post-retirement benefits.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

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

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

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

(a) Foreign currency

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in USD, which is the Group's functional and the Group's presentation currency.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions or valuation where items are re-measured. Monetary assets and liabilities denominated in a currency other than the functional currency are translated to the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities are recognized in profit or loss on the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance cost'. All other foreign exchange gains and losses are presented on a net basis in the income statement within other income (expense).

(b) Financial instruments

(i) Non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset, expire or are settled.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: cash and cash equivalents and other assets; trade and other receivables and other assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade and other receivables

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Trade and other receivables comprise trade, other receivables and notes receivable.

Other assets

Other assets are financial assets which are comprised of investments, a convertible promissory note and share purchase loans. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, investments are measured at cost less any permanent decline in value. Convertible promissory note and share purchase loans subsequently include accrued interest.

(ii) Non-derivative financial liabilities

All financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings; bank overdrafts; trade and other payables.

Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

(iv) Derivative financial instruments

The Group holds stand-alone derivative financial instruments to reduce its foreign currency risk exposures.

Embedded derivatives are separated from the host contract and accounted for separately. If the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized immediately in profit or loss.

(c) Property, plant and equipment

(i) Recognition and measurement

Land and buildings comprise mainly manufacturing facilities and offices. Items of property, plant and equipment are measured at historical cost (net of government grants) less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Land is not depreciated. For other property, plant and equipment, depreciation is calculated over the depreciable amount, which is the cost of an asset, revalued amount or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of property, plant and equipment, with certain manufacturing equipment being depreciated on a units of production basis since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

• buildings	15-40 years
• plant and manufacturing equipment	5-15 years
• vehicles	3-5 years
• furniture, office, lab and computer equipment	3-5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(d) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of a business is included in intangible assets. At initial recognition, goodwill is measured as the excess of purchase price over the fair value of identifiable net assets.

In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Canadian Generally Accepted Accounting Principles.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested annually for impairment. Impairment losses on goodwill are not reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or Groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

(ii) Customer Relationships

Customer Relationships that arise upon the acquisition of a business are included in intangible assets. At initial recognition, customer relationships are measured at fair value based on the current customers total sales, estimating an annual attrition rate and future growth based on current market conditions and historical data.

(iii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Investment tax credits and other related government assistance are recorded as a reduction of R&D department costs. Investment tax credits related to capital assets reduce property, plant and equipment accordingly.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use and borrowing costs on qualifying assets. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(iv) Other intangible assets

Other intangible assets, such as software, that are acquired or developed by the Group and have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses. Costs associated with annual licenses and maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when there is an ability to use the software product and it can be demonstrated how the software product will generate probable future economic benefits.

Directly attributable costs that are capitalized as part of the software product include the incremental software development or contracted employee costs. Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

(v) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and intellectual property, are recognized in profit or loss as incurred.

(vi) Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

The estimated useful lives for the current and comparative periods are as follows:

- software 5 years
- capitalized development costs 3-5 years
- customer relationships 10 years

(e) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. Impairment charges are recorded against cost of sales, when it is determined the net realizable value is less than cost.

(f) Employee benefits

(i) Defined benefit plans

The Group provides designated employees with defined post-employment benefits based upon their years of service. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. These benefits are accrued by the Company and remain unfunded unless certain events occur. The Group's net obligation, in respect of defined benefit pension plans, is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets (if any) are deducted. The discount rate is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The Group recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and reports them in retained earnings.

Settlements are approved by the Board of Directors and any difference between the final cash settlement and the Group's net obligation, are recognized at that time as a gain or loss to the current Statement of Income.

(ii) Other long-term employee benefits

The Group provides certain employees with post retirement life insurance benefits that are unfunded. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries. The Group's net obligation in respect of long-term employee benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. Any actuarial gains and losses are recognized in other comprehensive income and retained earnings in the period in which they arise.

(iii) Defined Contribution Plan

AirBoss Flexible Products Co. maintains a simplified employee defined contribution pension plan covering substantially all U.S. employees not covered by collective bargaining agreements. The Group's contributions are discretionary and are not to exceed 5% of the total eligible compensation earned by plan participants during the year.

(iv) Multi-Employer Pension Plan

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

(a) Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

(b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

(c) If the Group chooses to stop participating in the multi-employer plan, the Group may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

(v) Bonus Plan

The Group recognizes a liability for unpaid bonuses and an expense for all bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders, after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(g) Provisions

Provisions for environmental restoration and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(h) Revenue

(i) Goods Sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when: persuasive evidence that the significant risks and rewards of ownership have been transferred to the buyer; recovery of the consideration is probable; the associated costs and possible return of goods can be estimated reliably; there is no continuing management involvement with the goods; and the amount of revenue can be measured reliably. Revenues are recorded based on the price specified in the price quotes or contracts. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards may be upon shipment to, or receipt by, customers depending on the individual terms of the contract of sale. Generally, the buyer has no right of return except if the product did not comply with the agreed upon specifications.

(ii) Services

Revenue from services rendered is recognized in profit or loss on provision of the services.

(iii) Presentation

Revenue and cost of sales are presented on a gross basis in the consolidated statements of income when the Group is acting as principal and is subject to the significant risks and rewards of the transaction. Where the Group receives consignment inventory for processing, the tolling charges are recorded as revenue.

(i) Government grants

An unconditional government grant is recognized as a reduction of the cost of the asset acquired or expenses incurred when the grant becomes receivable.

(j) Lease payments

Payments made under operating leases are recognized in profit or loss, on a straight-line basis, over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

(k) Finance income and finance costs

Finance income comprises interest income on funds invested and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized, as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets and the financing component of employee benefits. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(l) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years. Current tax also includes any tax arising from dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(m) Segment reporting

Segment results that are reported to the Group's CEO (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Operating segments are aggregated if they are similar and demonstrate similar economic characteristics. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and tax assets and liabilities.

(n) Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from directors, employees and certain advisors as consideration for equity instruments (options) of the Group. The fair value of the services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. When the options are exercised, the Company issues new shares. The proceeds received, together with the amount recorded in contributed surplus, are credited to share capital when the options are exercised. The beneficiary can elect to convert the fair value of the vested options to the market value of shares on a cash-less basis on the exercise date.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The Group also has a cash-settled stock appreciation rights plan ("SARS"), a form of stock-based compensation. The compensation expense is accrued over the vesting period with a corresponding increase in liabilities in the amount which represents the fair value of the amount payable to the employee in respect of SARS. The liability is re-measured at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognized as a compensation expense in the statement of income.

During 2014, the Company has committed to providing certain executives with additional compensation based on the performance of shares in aggregate, under a restricted stock unit plan subject to shareholder approval. The Company is currently determining the details of the plan, including performance and measurement requirements, for approval by the shareholders. Upon maturity, the plan will be settled in either cash or shares at the Company's discretion. The liability is re-measured at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognized as a compensation expense in the statement of income.

(o) New standards and interpretations not yet adopted.

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

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

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

NOTE 4 BUSINESS ACQUISITION

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

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

In the period between October 19, 2013 to December 31, 2013, Flexible contributed net sales of $22,430 and profit of $516.

If the acquisition had occurred on January 1, 2013, management estimates that consolidated net sales would have been $312,889 and profit for the year of $7,985. In determining these amounts, management had assumed that the fair value of the adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2013. Profit would be adjusted for depreciation on the fair value of capital assets acquired, amortization of customer relationships, amortization of fair value increment of inventory, interest on new long-term debt, elimination of intercompany sales at pre-acquisition period, and related tax effects.

Consideration transferred

Pursuant to the stock purchase agreement, AirBoss Rubber Compounding (NC) Inc., a subsidiary of the Company, acquired all of the outstanding stock of Flexible for cash consideration of $54,527. In addition, consideration of $3,178 was paid to the stakeholders of Flexible relating to certain tax elections and $151 for a working capital adjustment.

The acquisition was financed with debt, with the Company entering into a new long-term debt facility with a syndicate of banks led by its existing banker, comprised of revolving loans and term loans as described below.

Operating Line

The operating line consists of a US $25 million senior secured multi-currency revolver (tranche A) and a US $15 million senior secured revolving credit facility (tranche B).

Term Loan

The term loan consists of a US $45 million senior secured term loan (tranche C), a CAD $8.7 million fixed rate term loan maturing July 2015 (tranche D) and a CAD $5 million fixed rate term loan maturing October 2018 (tranche E).

Accordion

Under the terms and subject to the conditions of the credit agreement relating to the new debt facility, the Company has the ability to borrow up to an additional US $40 million from its lenders.

Acquisition-related costs

The Company incurred acquisition-related costs of $122 (2013: $1,700) on legal fees and due diligence costs. These costs have been included in "administrative expenses".

Identifiable assets acquired and liabilities assumed

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

(In thousands of US dollars)

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

On October 18, 2013, the Company's best estimate of the acquired accounts receivables not expected to be collected was $101.

Measurement of fair value

Property, plant and equipment	Market approach technique and cost approach technique: The market approach analyzes recent sales or offering prices of assets that are similar to the subject asset to arrive at an indication of the most probable selling price of the asset being appraised. The cost approach applies the principle of substitution whereby if the asset is new, the current cost of producing the equivalent asset establishes the upper limit of value. If the asset is not new, physical deterioration and functional and economic obsolescence must be deducted from the current cost of that asset.
Intangible assets	Fair value is determined based on the discounted assets specific cash flow derived from forecast earnings.
Inventories	Fair value is determined based on the estimated fair value increment on the estimated gross profit from finished goods inventories.

Goodwill

Goodwill arising from the acquisition has been recognized as follows.

In thousands of US dollars	
Consideration transferred	57,856
Fair value of net identifiable assets	(47,791)
Goodwill	10,065

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

NOTE 5 TRADE AND OTHER RECEIVABLES

December 31 *In thousands of US dollars*	**2014**	2013
Trade receivables	**41,860**	42,068
Less: allowance for doubtful accounts	**(254)**	(181)
	41,606	41,887
Other receivables	**940**	746
	42,546	42,633

Impairment losses

The aging of trade receivables at the reporting date was:

December 31	**2014**		2013	
In thousands of US dollars	**Gross**	**Impairment**	Gross	Impairment
Within terms	**34,601**	**-**	21,097	-
Past due 0-30 days	**4,687**	**-**	17,115	-
Past due 31-120 days	**2,572**	**(254)**	3,856	(181)
	41,860	**(254)**	42,068	(181)

The continuity of the allowance for doubtful accounts was:

In thousands of US dollars	**2014**	2013
Balance at January 1	**(181)**	(99)
Impairment loss recognized	**(337)**	(287)
Collected	**22**	186
Revise estimate/write-off	**242**	19
Balance at December 31	**(254)**	(181)

NOTE 6 INVENTORIES

December 31 *In thousands of US dollars*	**2014**	2013
Raw materials and consumables	**24,701**	21,149
Work in progress	**2,705**	2,550
Finished goods	**8,297**	7,564
Inventory in transit	**3,968**	2,326
Other inventory	**1,065**	1,433
	40,736	35,022
Provisions	**(1,081)**	(1,102)
	39,655	33,920

An inventory recovery of $23 (2013: $377) was included in cost of sales.

NOTE 7 PROPERTY, PLANT AND EQUIPMENT

In thousands of US dollars	Land and buildings	Plant and equipment	Furniture and equipment	Under construction	Total
Cost or deemed cost					
Balance at January 1, 2013	14,548	40,347	1,034	1,329	57,258
Additions	24	130	21	4,776	4,951
Disposals	-	(116)	(3)	-	(119)
Transfers	426	4,295	320	(5,041)	-
Business Acquisition	-	12,076	227	-	12,303
Balance at December 31, 2013	14,998	56,732	1,599	1,064	74,393
Additions	48	131	4	6,450	6,633
Disposals	-	(46)	-	-	(46)
Transfers	171	2,051	50	(2,698)	(426)
Balance at December 31, 2014	15,217	58,868	1,653	4,816	80,554
Accumulated depreciation					
Balance at January 1, 2013	2,113	10,603	519	-	13,235
Depreciation for the period	909	4,675	232	-	5,816
Disposals	-	(75)	(1)	-	(76)
Balance at December 31, 2013	3,022	15,203	750	-	18,975
Depreciation for the period	848	5,334	258	-	6,440
Disposals	-	(25)	-	-	(25)
Transfers	(95)	(60)	(15)	-	(170)
Balance at December 31, 2014	3,775	20,452	993	-	25,220

Included in plant and equipment is spare parts inventory of $41 (2013: $62).

Carrying amounts

In thousands of US dollars	Land and buildings	Plant and equipment	Furniture and equipment	Under construction	Total
At December 31, 2013	11,976	41,529	849	1,064	55,418
At December 31, 2014	11,442	38,416	660	4,816	55,334

Depreciation expense of $6,014 (2013: $5,446) was charged to costs of sales, $267 (2013: $298) was charged to general and administrative expense and $159 (2013: $114) was charged to research and development expenses. Rental expense for equipment under operating lease of $379 (2013: $314) was included in the income statement.

Government assistance grants relating to capital assets were $39 in 2014 (2013: $26); land and buildings and property, plant and equipment were adjusted accordingly. A loss of $21 (2013: $43) was recognized relating to the write-off of plant equipment and furniture and included in depreciation expense charged to cost of sales $21 (2013: $42) and general and administrative $nil (2013: $1) expenses. No proceeds were received.

NOTE 8 INTANGIBLE ASSETS

In thousands of US dollars	Customer Relationships	Goodwill	Software	Total
Cost				
Balance at January 1, 2013	-	6,833	2,323	9,156
Business Acquisition (Note 4)	16,000	10,065	-	26,065
Purchases	-	-	504	504
Balance at December 31, 2013	16,000	16,898	2,827	35,725
Purchases	-	-	199	199
Transfers	-	-	387	387
Balance at December 31, 2014	16,000	16,898	3,413	36,311
Amortization and impairment losses				
Balance at January 1, 2013	-	-	998	998
Amortization for the period	324	-	416	740
Balance at December 31, 2013	324	-	1,414	1,738
Amortization for the period	1,600	-	565	2,165
Transfers	-	-	131	131
Balance at December 31, 2014	1,924	-	2,110	4,034
Carrying amounts				
At December 31, 2013	15,676	16,898	1,413	33,987
At December 31, 2014	14,076	16,898	1,303	32,277

Amortization expense of $2,165 (2013: $740) was charged to general and administrative expense. Remaining amortization for customer relationships is 8.8 years.

Impairment

Goodwill is allocated to those Cash Generating Units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill. The Company's goodwill is allocated to AirBoss Engineered Products and AirBoss Flexible Products. As at December 31, 2014 and December 31, 2013, there was no goodwill impairment.

Recoverable amount

Recoverable amount was based on value in use. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit.

Key assumptions used in value-in-use calculations

The calculations of value in use for the Cash Generating Units are most sensitive to the following assumptions:

- Discount rate used 6%
- Growth rate of 2-5% for operating expenses used in the budget
- Projected sales used to extrapolate cash flows beyond the budget date

Cash flows were projected based on past experience, actual operating results and the business plan for a 1 year period. Cash flows for a further 5 year period were extrapolated using projected sales and a growth rate of 2-5% for operating expenses which does not exceed the long-term average growth rate for the industry.

Revenue and margins in the business plan were budgeted based on discussions with customers, contracts on-hand and industry information, past experience and trends, as well as initiatives. The anticipated annual revenue has been based on conservative growth levels, (net of the inflationary effect of rising raw material prices).

The values assigned to the key assumptions represent management's assessment of future trends in the rubber, AEP and automotive industries and are based on both external sources and internal sources (historical data).

NOTE 9 OTHER ASSETS

In thousands of US dollars	**2014**	2013
Non-current assets		
Balance at January 1	**468**	116
Business Acquisition (Note 4)	**-**	313
Convertible promissory note (Note 20)	**550**	-
Interest accrued on promissory note	**32**	-
Purchases	**-**	47
Share purchase loans (Note 20)	**1,774**	-
Interest accrued on share purchase loans	**2**	-
Effect of movements in exchange rates	**(59)**	(8)
Balance at December 31	**2,767**	468

Included in the business acquisition, was a 10% equity interest in a private company for $313.

NOTE 10 DERIVATIVES NOT MEETING HEDGE ACCOUNTING CRITERIA

Foreign exchange hedge

At December 31, 2014, the Company had contracts to sell US $10,460 in 2015 for CAD $12,000. The fair value of these contracts, representing a loss of $116 is recorded on the statement of financial position included in trade and other payables, including derivatives and changes in fair value recorded on the statement of income as expense. There were no forward contracts outstanding at December 31, 2013.

Interest rate swap

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

During 2014, the net interest expense of the swap agreement was $159 and $136 was paid; (2013: $nil and $nil was paid).

For the year ended December 31, 2014, the fair value of this agreement, representing a loss of $76, is recorded on the statement of financial position included in loans and borrowings and changes in fair value are recorded on the statement of income as finance costs.

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

NOTE 11 LOANS AND BORROWINGS

December 31 *In thousands of US dollars*	**2014**	2013
Non-current		
Term debt	**39,735**	52,305
Less: deferred financing	**(450)**	(632)
	39,285	51,673
Current		
Term debt	**11,663**	5,440
	11,663	5,440

December 31 *In thousands of US dollars*	**2014**	2013
CAD $7.9 million (2013: $8.6 million) term debt, bearing interest at 6.39%, seven year term, amortized over 15 years, with interest payable monthly and no principal payments required until November 15, 2011, balance repayable July 15, 2015.	**6,800**	8,044
CAD $5 million term debt, bearing interest at 5.25%, five year term, amortized over 20 years, with principal and interest payable quarterly and the balance repayable October 18, 2018.	**4,023**	4,701
US $45 million term debt, bearing interest at LIBOR plus applicable margins from 150 to 250 basis points depending on certain covenants, five year term, amortized by specific installments of principal plus interest payable quarterly and the balance repayable October 18, 2018.	**40,575**	45,000
Subtotal	**51,398**	57,745
Less principal due within one year	**(11,663)**	(5,440)
	39,735	52,305

Deferred financing fees, less accumulated amortization have been deducted against the term loan for presentation purposes.

In 2013, deferred financing fees of $637, in regards to the new credit agreement were capitalized (2014: $nil). The fees are being amortized over 5 years and $123 (2013: $26) has been amortized and is included in finance costs.

Term debt is secured by a first charge against property, plant and equipment and an inter-creditor arrangement with the demand loan entered into by the Company and by its subsidiaries supported by collateral mortgages. Interest expense in 2014 on the term loans was $1,710 (2013: $836).

Principal repayments on the term loan are as follows:

In thousands of US dollars	**Total**	**2015**	**2016**	**2017**	**2018**	**2019**
Term loan	51,398	11,663	5,913	5,912	27,910	-

The operating line consists of a US$25 million senior secured multi-currency revolver and a US$15 million senior secured revolving credit facility. $40 million of this facility is unused as at December 31, 2014 (2013: $39.2 million).

Under the credit agreement, the Company has the ability to borrow an additional US$40 million from its syndicate partners.

The credit agreement provides the lenders with a perfected first security interest on all accounts receivable and inventories of the Company and its subsidiaries, secured guarantees and an inter-creditor arrangement with the term loan syndicate. Interest expense in 2014 on the demand loan was $157 (2013: $217).

At December 31, 2014 the Company is not in default, nor has it breached any terms of its loan agreement.

The contractual re-pricing dates at the end of the reporting period are as follows:

December 31 *In thousands of US dollars*	**2014**	2013
Less than 1 year	**11,663**	5,440
1 to 5 years	**39,285**	51,673
	50,948	57,113

The carrying amount and fair value of the borrowings are as follows:

	Carrying amount		Fair value	
In thousands of US dollars	**2014**	2013	**2014**	2013
Term debt	**50,948**	57,113	**51,540**	57,966

The fair value of current borrowings approximates the carrying amount, as the impact of discounting at current market rates will not have a material impact. The fair values are based on cash-flows discounted using a rate based on the borrowing rate of 4.46% (2013: 5.17%) for fixed rate term loan and 1.67% (2013: 2.67%) for LIBOR loan.

NOTE 12 PROVISIONS

In thousands of US dollars	Site restoration	Stock appreciation rights	Other	Total
Balance at January 1, 2013	100	-	-	100
Provisions accrued during the year	-	804	-	804
Provisions reversed during the year	-	-	-	-
Foreign exchange	(6)	-	-	(6)
Balance at December 31, 2013	94	804	-	898
Provisions accrued during the year	**-**	**2,318**	**211**	**2,529**
Provisions reversed during the year	**-**	**-**	**-**	**-**
Foreign exchange	**(8)**	**(166)**	**(17)**	**(191)**
Balance at December 31, 2014	**86**	**2,956**	**194**	**3,236**

No legal provisions are recognized at December 31, 2014 and 2013.

Stock Appreciation Rights Plan

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

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

The Company recognized as employee costs $2,318 (2013: $804) relating to the SARS plan.

Equity Compensation Plan

During 2014, the Company has committed to providing certain executives with additional compensation based on the performance of 64,000 shares in aggregate, under a restricted stock units plan subject to shareholder approval. The Company is currently determining the details of the plan, including performance and measurement requirements, for approval by the shareholders. As at December 31, 2014 the Company has recognized as employee costs $211 (2013: $nil) related to the plan.

NOTE 13 CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital and Contributed Surplus

Share Capital: Authorized - Unlimited number of common shares.

Unlimited number of Class B preference shares without par value and issuable in series subject to the filing or articles of amendment. The directors may fix, from time to time before such issue, the number of shares that is to comprise each series and the designations, rights, privileges, restrictions and conditions attaching to each series.

Issued share capital is as follows:

In thousands of shares	**2014**	2013
January 1	**22,748**	22,493
Exercise of share options	**251**	255
Repurchase of common shares	**-**	-
December 31	**22,999**	22,748

Issuance of common shares

During 2014 650,750 options (2013: 651,500) were exercised.

Normal Course Issuer Bid

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

No shares were purchased for cancellation under the Normal Course Issuer Bid during 2014 and 2013.

Capital and other components of equity

Contributed surplus

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

The contributed surplus is as follows:

In thousands of US dollars	**2014**	2013
Balance at January 1	**1,735**	1,925
Stock option expense	**503**	477
Exercise of stock options	**(1,057)**	(667)
Recovery of forfeited options	**(107)**	-
Balance at December 31	**1,074**	1,735

Stock Options

The Company has reserved 2,299,876 (2013: 2,274,812) shares for its stock option plan. Options vest when granted, or over a period of up to five years at the discretion of the Board of Directors. Options granted to directors and officers of the Company, which were outstanding at December 31, 2014, are as follows:

Range of exercise price ($CAD)	**Options outstanding Quantity**	**Weighted average contract life**	**Options exercisable Quantity**
5.27	43,000	0.67	43,000
6.35	595,000	3.67	145,000
7.19	50,000	1.25	37,500
7.77	50,000	3.92	12,500
12.05	240,000	5.00	-
	978,000		238,000

Options granted and outstanding:

A summary of the status of the Company's stock option plan as of December 31, 2014 and 2013 and changes during the years then ended, is presented below:

	2014		2013	
	Quantity	**Weighted average exercise price ($CAD)**	Quantity	Weighted average exercise price ($CAD)
Outstanding beginning of year	**1,482,500**	**5.86**	1,434,000	4.23
Granted	**240,000**	**12.05**	700,000	6.45
Exercised	**(650,750)**	**5.13**	(651,500)	2.91
Forfeited	**(93,750)**	**6.36**	-	-
Outstanding end of year	**978,000**	**7.82**	1,482,500	5.86

During 2014, 650,750 options (2013: 601,500) were exercised on a cash-less basis for 250,644 shares (2013: 205,231). In addition, during 2013, 50,000 options were exercised for cash of $146.

Inputs for measurement of grant date fair values

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

Fair value of share options and assumptions

In Canadian dollars	**December 2014**	November 2013	August 2013
Fair value at grant date	**$3.38**	$2.60	$2.10
Share price at grant date	**12.22**	7.70	6.35
Exercise price	**12.05**	7.77	6.35
Expected volatility (weighted average volatility)	**34.50%**	46.9%	47.5%
Option life (expected weighted average life)	**5 years**	5 years	5 years
Expected dividends	**1.64%**	2.6%	3.15%
Risk-free interest rate (based on government bonds)	**1.34%**	1.73%	1.92%

The stock options issued vest as follows:

	Quantity
Currently vested	238,000
2015	235,000
2016	222,500
2017	222,500
2018	60,000
	978,000

Stock option expense

During the year, the Company recognized as employee costs $396 (2013: $477) relating to option grants in general and administrative expenses of the statement of income.

Dividends

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

	2014		2013	
Shareholder of record at:	**$CAD/share**	**Date Paid**	$CAD/share	Date Paid
March 31	**0.05**	**April 17, 2014**	0.05	April 3, 2013
June 30	**0.05**	**July 17, 2014**	0.05	July 18, 2013
September 30	**0.05**	**October 16, 2014**	0.05	October 17, 2013
December 31	**0.05**	**January 15, 2015**	0.05	January 16, 2014
	0.20		0.20	

The dividend payable at December 31, 2014 was $991 (2013: $1,069).

NOTE 14 EARNINGS PER SHARE

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

December 31 *In thousands of US dollars except per share amounts*	**2014**	2013
Numerator for basic and diluted earnings per share:		
Net income	**13,725**	6,351
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	**22,860**	22,711
Dilution effect of stock options	**75**	93
Diluted weighted average number of shares outstanding	**22,935**	22,804
Net income per share:		
Basic	**0.60**	0.28
Diluted	**0.60**	0.28

At December 31, 2014, 240,000 options (2013: 800,000) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

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

NOTE 15 INCOME TAXES

The provision for income taxes differs from the amount computed by applying the Canadian statutory income tax rate to income before income taxes for the following reasons:

December 31 *In thousands of US dollars*	**2014**	2013
Combined federal and provincial statutory income tax	**4,898**	2,209
Foreign tax differential	**512**	(441)
Effect of permanent differences	**(433)**	405
Difference arising on filing and assessments	**(793)**	(195)
Other	**135**	503
Total expense	**4,319**	2,481
The components of the provision for income taxes are as follows:		
Current	**3,372**	4,143
Deferred	**947**	(1,662)
Total	**4,319**	2,481

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows:

December 31 *In thousands of US dollars*	**2014**	2013
Deferred income tax assets:		
Non-capital income tax loss carry-forwards	**1,487**	2,849
Deferred income tax deductions relating to long-term liabilities	**482**	716
Provisions	**412**	14
Equity Compensation	**792**	201
Financing fees	**379**	99
Alternative minimum tax	**97**	97
Capital assets	**20**	56
Other	**59**	59
	3,728	4,091
Deferred income tax liabilities:		
Research and development expenses deducted for accounting in excess of tax purposes	**(87)**	-
Deferred income tax deductions relating to long-term liabilities	**-**	(9)
Capital assets	**(8,012)**	(7,675)
	(8,099)	(7,684)
Net deferred income tax liabilities	**(4,371)**	(3,593)

In assessing the valuation of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of deferred taxable income during the period in which the temporary differences are deductible.

Management considers the scheduled reversals of deferred income tax liabilities, the character of the income tax asset and the tax planning strategies in making this assessment. Management would not recognize deferred income tax assets if the more likely than not realization criterion is not met.

The Company has losses of $4.7 million (2013: $7.4 million) available to offset deferred income taxes in the US and has recognized a related deferred income tax asset of $1.5 million (2013: $2.8 million). These net operating losses have a 15 to 20 year carry forward.

The aggregate amount of taxable temporary differences associated with investments in subsidiaries, branches and associated and interests in joint ventures, for which no deferred tax liabilities have been recognized, is $31,738 (2013: $25,689).

NOTE 16 GOVERNMENT ASSISTANCE

During the year 2014, AEP recognized grants of $1,401 to support certain initiatives (2013: $1,538) which were offset against expenses. In addition, $nil (2013: $108) was recognized from the province of Quebec in respect of capital. Capital assets were adjusted accordingly.

During the year 2014, the Rubber Compounding division recognized $35 (2013: $121) to mainly support job creation which was offset against expenses.

Scientific research and investment tax credit of $815 were recognized in 2014 (2013: $927); R&D costs were adjusted accordingly. In addition, $39 (2013: $110) was recognized as a reduction to capital assets in respect of provincial tax credits.

NOTE 17 COMMITMENTS AND CONTINGENCIES

Commitments

The Company is committed, under non-cancellable operating lease agreements, to minimum rentals for equipment and premises as follows:

In thousands of US dollars	Equipment	Premises	Total
2015	335	1,154	1,489
2016	242	1,050	1,292
2017	186	1,050	1,236
2018	70	1,050	1,120
2019	5	838	843
Thereafter	-	-	-
Total	838	5,142	5,980

Litigation

In 2004, the Company commenced an Action in the Superior Court of Quebec claiming funds due pursuant to the 1999 Agreement of Purchase and Sale, whereby AirBoss acquired the assets of Acton International Inc.

The Company had been informed that an appeal was filed relating to the Judge’s decision to award the Company 100% of its claim for environmental costs reimbursement. This appeal was heard in May, 2013 and a unanimous ruling dismissing the claim in its entirety with costs against the defendants was issued. During the second quarter of 2013, the Company reversed the residual amounts owing to the defendants and recorded a recovery of $389 in other income. As at November 1, 2013, the Defendants are indebted towards the Plaintiffs for an amount of CAD $443; efforts to collect are underway. The Company has not recognized a receivable due to collection uncertainty.

NOTE 18 POST RETIREMENT BENEFITS

The Company maintains an unfunded supplementary employment retirement plan for certain executives "executive supplemental plan" and provides post retirement life insurance benefits to eligible retirees "other benefit plan".

Funding for the executive supplemental plan is triggered on a change of control. The Company maintains an insurance policy to cover the obligation, in event of the executive's death. When the executive retires, the annual entitlement is funded from operations. This supplemental plan is a non-registered plan, and while there is no requirement to fund the plan, the employees have reached retirement age and may elect to receive a lump sum payment of their benefits under the plan. At December 31, 2014, the weighted average duration of the defined benefit obligation was 13.5 years (2013: 14 years).

Risks associated with this benefit plan are similar to those of typical supplemental non-registered defined benefit plans, including interest rate risk, credit risk, longevity risk, etc. There are no significant risks associated with this plan that can be deemed unusual or require special disclosure.

The post-retirement life insurance benefits under "other benefit plan" are for non-unionized and unionized employees of AirBoss Engineered Products Inc. which are unfunded defined benefit plans covering life insurance.

The methods of accounting, assumptions and frequency of valuations for the other benefit plan are similar to those used for defined benefit pension schemes. This plan is funded through proceeds from an insurance policy. Total estimated contribution to this plan for the next fiscal year is $48. This plan is unfunded as such there is no plan asset to be disclosed. At December 31, 2014, the weighted average duration of the defined benefit obligation was 12 years (2013: 12 years).

This benefit plan exposes the Company to actuarial risks, such as interest rate risk and longevity risk.

December 31 *In thousands of US dollars*	**2014**	2013
Statement of Financial Position obligations for:		
Executive Supplemental Plan	**1,251**	2,330
Other benefit plan	**628**	489
	1,879	2,819
Income statement charge for:		
Executive Supplemental Plan	**90**	91
Other benefit plan	**23**	27
	113	118
Actuarial loss (gain) recognized in the statement of other comprehensive income in the period (before tax):		
Executive Supplemental Plan:		
Actuarial (gain)/loss arising from:		
Experience adjustment	**188**	-
Financial assumptions	**305**	(351)
Demographic assumptions	**(29)**	231
Other benefit plan:		
Actuarial (gain)/loss arising from:		
Economic assumptions	**72**	(17)
Demographic assumptions	**121**	(24)
	657	(161)
Cumulative actuarial loss (gain) recognized in the statement of other comprehensive income (before tax)		
Executive Supplemental Plan	**262**	(202)
Other benefit plan	**467**	274
	729	72

December 31 *In thousands of US dollars*	Executive Supplemental Plan **2014**	 2013	Other benefit plan **2014**	 2013
Present value of unfunded obligation and Liability in the Statement of Financial Position	**1,251**	2,330	**628**	489
Movement in the defined benefit obligation is as follows:				
At January 1	**2,330**	2,525	**489**	583
Current service cost	**-**	-	**2**	4
Interest cost	**90**	91	**21**	23
Employer contribution	**-**	-	**(36)**	(43)
Gain on settlement	**(128)**	-	**-**	-
Benefit payment	**(1,363)**	-	**-**	-
Actuarial (gain)/loss	**464**	(120)	**193**	(41)
Exchange differences	**(142)**	(166)	**(41)**	(37)
	1,251	2,330	**628**	489
At December 31				
The amounts recognized in the income statement are as follows:				
Gain on settlement	**(128)**	-	**-**	-
Post-retirement benefits expense	**-**	-	**(36)**	(39)
Interest cost	**90**	91	**21**	23
Exchange differences	**(142)**	(166)	**(41)**	(37)
Expense (recovery)	**(180)**	(75)	**(56)**	(53)

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

December 31 *In thousands of US dollars*	Executive Supplemental Plan **2014**	 2013	Other benefit plan **2014**	 2013
The amount recognized in Other Comprehensive Income				
Opening balance	**202**	82	**(274)**	(315)
Gain/(loss) for the year on accrued benefit	**(464)**	120	**(193)**	41
Closing balance	**(262)**	202	**(467)**	(274)

December 31 *In thousands of US dollars*	Executive Supplemental Plan **2014**	 2013	Other benefit plan **2014**	 2013
The principal actuarial valuation assumptions used were as follows:				
Discount rate	**3.75%**	4.75%	**3.75%**	4.75%
Mortality	**CPM-RPP2014 Priv Table with adjustment factors to account for the level of benefits and with generational projection using improvement scale CPM-B**	CPM-14 Priv Gen CPM-A1 Age 65 or age at the valuation date, if greater	**CPM mortality table projected with scale B for the private sector**	CPM-RPP 2014 Private Sector Mortality Table-Draft July 2013 with 2D improvement scales
Retirement age:				
Percentage of members with spouses at retirement	**100%**	50%	**N/A**	N/A
EARSL	**2.7**	3.5	**12**	12

The sensitivity of the executive supplemental plan to changes in assumptions is set out below. The sensitivity analysis was performed by recalculating the defined benefit obligation and the current service cost at the same valuation date, but only changing the assumption for which the sensitivity was required. This obligation was then used to calculate the difference against the actual amount established as at December 31, 2014. The effect of a variation in a particular assumption on the change in obligation has been calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (e.g. due to correlations between economic assumptions), which may magnify or counteract the sensitivities.

	Supplemental Plan	
Membership data December 31	**2014**	2013
In thousands of US dollars		
Discount rate 3.50% (instead of 3.75%)	**43**	81
Mortality 1-year increase in life expectancy	**28**	(25)
Retirement age 100% at age 64 years old (instead of 100% at 65 years old)	**72**	152

The sensitivity of the "other benefit plan" to changes in assumptions is set out below. The sensitivity analysis was performed by changing each assumption individually. If actual changes occur, some of these assumptions are likely to be correlated and result in a combined impact.

Fiscal Year ending December 31	**2014**	2013
Effect of an increase of 1%		
Post-employment benefit obligation	**(66)**	(53)
Aggregate of Service Cost + Interest Cost	**-**	(3)
Effect of a decrease in 1%		
Post-employment benefit obligation	**82**	64
Aggregate of Service Cost + Interest Cost	**-**	4
Mortality Sensitivity Analysis		
Effect of an increase of 10% on mortality rates		
Post-employment benefit obligation	**11**	4
Aggregate of Service Cost + Interest Cost	**-**	0.4
Effect of a decrease of 10% on mortality rates		
Post-employment benefit obligation	**(13)**	(5)
Aggregate of Service Cost + Interest Cost	**-**	(0.5)

Defined Contribution Plan

AirBoss Flexible Products Co. maintains a simplified employee defined contribution pension plan ("SEP") covering substantially all U.S. employees not covered by collective bargaining agreements. The Group's contributions are discretionary and are not to exceed 5% of the total eligible compensation earned by plan participants during the year. For the period ended December 31, 2014, the expense for this plan was approximately $273 (2013: $69).

Beginning January 1, 2015, this SEP plan was replaced with a 401K plan sponsored by AirBoss Flexible Products Co. for all of their employees not covered by collective bargaining agreements. Total estimated contribution to this plan for the next fiscal year is $300.

Multi-Employer Pension Plan

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

(a) Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

(b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

(c) If the Group chooses to stop participating in the multi-employer plan, the Group may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company made contributions of $249 (2013: $40) to the multi-employer pension plan. The unfunded vested benefit ratio was 46.38% at December 31, 2014. The Steel Workers Pension Trust is in a net deficit at December 31, 2014 and the Company's portion of the deficit is unknown. The financial position for this trust at December 31, 2014 is not available; as such it is not disclosed in this note. The collective bargaining agreements that require contributions to the multi-employer plan are set to expire December 31, 2017. The collective bargaining agreement requires that the Group contributes $0.40 for each hour worked by eligible employees during the preceding wage month. Total estimated contribution to this plan for the next fiscal year is $250.

NOTE 19 SEGMENTED INFORMATION

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

- Rubber Compounding. Includes manufacturing and distributing rubber compounds and distributing rubber chemicals.
- AEP. Includes manufacturing and distributing protective wear and semi-finished rubber products.
- Automotive. Includes manufacturing and distributing automotive parts.
- Corporate. Includes corporate activities and certain unallocated costs.

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

Inter-company amounts, which represent items purchased from different segments, have been presented within the segment disclosure and are eliminated to arrive at the consolidated amounts.

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

For the year ended December 31	Rubber Compounding		AEP		Automotive		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Segment revenue	**164,444**	167,683	**47,913**	62,169	**124,931**	22,430	**-**	-	**337,288**	252,282
Inter-segment revenue	**(31,092)**	(12,417)	**(3,045)**	(3,540)	**-**	-	**-**	-	**(34,137)**	(15,957)
External revenues	**133,352**	155,266	**44,868**	58,629	**124,931**	22,430	**-**	-	**303,151**	236,325
Depreciation and amortization	**3,664**	3,692	**2,229**	2,341	**2,708**	541	**25**	25	**8,626**	6,599
Finance cost	**2,781**	1,147	**13**	363	**-**	3	**(516)**	(317)	**2,278**	1,196
Reportable segment profit before income tax	**7,984**	4,202	**2,994**	5,853	**10,679**	775	**(3,613)**	(1,998)	**18,044**	8,832
Income tax expense	**4,489**	1,764	**1,007**	1,577	**491**	260	**(1,668)**	(1,120)	**4,319**	2,481
Net income	**3,494**	2,439	**1,987**	4,274	**10,188**	516	**(1,944)**	(878)	**13,725**	6,351
Reportable segment assets	**71,941**	71,084	**36,873**	35,908	**68,356**	68,323	**11,736**	10,457	**188,906**	185,772
Reportable segment liabilities	**19,350**	19,113	**8,875**	8,404	**11,443**	12,630	**59,203**	64,485	**98,871**	104,632
Capital expenditure	**2,240**	4,004	**3,063**	1,261	**1,525**	114	**4**	76	**6,832**	5,455

Geographical segments

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

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

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

	December 31, 2014		December 31, 2013	
In thousands of US dollars	**Revenues**	**Non-current assets**	Revenues	Non-current assets
Canada	**71,686**	**44,235**	64,830	42,327
United States	**212,272**	**46,143**	165,359	47,711
Other countries	**19,193**	**-**	6,136	-
	303,151	**90,378**	236,325	90,038

Major customers

Revenues from one customer represent approximately 10% (2013: 15%) of the Group's total revenues. Five customers represented 30% (2013: 39%) of the Company's total revenues.

Major Products

In thousands of US dollars	**2014**	2013
Rubber Compounding		
Tolling	**6,464**	5,041
Mixing	**126,888**	150,225
	133,352	155,266
AEP		
Industrial	**26,823**	32,048
Defense	**18,045**	26,581
	44,868	58,629
Automotive	**124,931**	22,430
	303,151	236,325

NOTE 20 RELATED PARTIES

Related Party Transactions

Included in the operating lease commitments was a rental agreement for corporate office space between the Company and a company controlled by the Chairman of the Company. The monthly lease rate approximates fair market rental value. During the year, the Company paid rent for the corporate office of $164 (2013: $175).

During the year, the Company paid fees for the use of a facility in South Carolina of approximately $21 (2013: $21) to a company in which the Chairman is an officer.

In addition, during the year, AirBoss Flexible Products Co. paid rent of $1,050 to a company controlled by an employee of the Company to utilize its facilities. Rent paid to this related party for the period October 19, 2013 to December 31, 2013 was $211.The lease provides for monthly payments equivalent to an annual rental of $1,050 and expires in 2019.

Transactions with key management personnel

Key management includes directors (executive and non-executive) CEO, President, CFO, and divisional Presidents. The compensation expense to key management for employee services is shown below:

December 31 *In thousands of US dollars*	**2014**	2013
Salaries and other short term benefits	**2,784**	1,582
Pension/Post-employment benefits	**(38)**	91
Share-based payment expense	**2,822**	1,283
	5,568	2,956

The amounts disclosed in this table are the amounts recognized as operating expenses for accounting purposes during the period and do not necessarily represent amounts receivable or received in cash.

Key management and directors own 27.9% of the outstanding common shares.

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

During the year, interest income on this convertible promissory note of $32 (2013: $nil) is recorded on the statement of financial position included in other assets and recorded on the statement of income as interest income.

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

During the fourth quarter of 2014, the Company provided share purchase loans of $1,000 CAD each to both the President and Chief Financial Officer to purchase the Company stock. The promissory notes are due upon the earlier of the disposition date of all or proportionate to any part of the pledged securities or November 24, 2019. The promissory notes bear interest at 1% annually with full recourse and interest is due and payable semi-annually. 201,000 shares of the Company having a fair value of $2,117 were pledged as collateral. At December 31, 2014, the promissory notes of $1,776, including accrued interest of $2, were included in other assets.

NOTE 21 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.

Market Risk

Commodity prices and supplies

The Company's financial performance depends on certain outside sources for raw materials, including carbon black, synthetic and natural rubber, ethylene propylene diene monomer ("EPDM") and silicone used in the production of its products, the price and availability of which are subject to fluctuations from such factors as weather, exchange rates and 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 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.

The following table approximates the financial impact, (assuming changes are not passed along to its customers), on the Company of a 10% increase in the cost of its most critical raw materials based upon purchases made in the respective years:

$Millions	Earnings before tax	
Increase (decrease)	**2014**	2013
Natural and synthetic rubber	**(2.89)**	(3.9)
Carbon black	**(2.06)**	(1.5)
EPDM	**(0.69)**	-
Silicone	**(0.83)**	-
	(6.47)	(5.4)

A small portion of the Company's products are sold at prices denominated in CAD dollars or based on prevailing CAD 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 US dollar relative to the Canadian dollar decreases the revenue in US dollar terms realized by the Company from sales made in Canadian dollars, partially offset by lower Canadian dollar operational costs/expenses, which decreases operating margin and the cash flow available to fund operations. The net Canadian monetary assets 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 Canadian dollars by increasing or decreasing the proportion of operating or term loan denominated in Canadian funds or forward currency contracts. 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. Engineered Product's business has relatively higher Canadian dollar expense content and is not naturally hedged.

The following table approximates the following impact on the Company of a $0.10 decrease in the value of one Canadian dollar in US currency:

$Millions	Earnings before tax	
Increase (decrease)	**2014**	2013
Sales (1)	**(3.1)**	(3.5)
Purchases (2)	**5.8**	6.2

(1) Based upon Canadian dollar-denominated sales in 2014
(2) Based upon combined 2014 Canadian purchases and expenses

Interest Rate Risk

The Company's interest rate risk mainly arises from the interest rate impact on cash and floating rate debt. At the end of 2014, Canadian dollar borrowings are on a fixed rate basis (2013: fixed rate basis). The US dollar borrowings are on a variable rate basis (2013: fixed rate basis). The Company has no formal policy to manage the proportion of borrowings on a fixed rate basis but is assessing its ability to increase its proportion of fixed rate revolving line of credit and term loan.

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

During 2014, the net interest expense of the swap agreement was $159 and $136 was paid.

For the period ended December 31, 2014, the fair value of this agreement, representing a loss of $76, is recorded on the statement of financial position included in loans and borrowings and recorded on the statement of profit as finance costs.

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

At the reporting date, the interest profile of the Company's interest-bearing financial instruments was:

December 31 *In thousands of US dollars*	**2014**	2013
Fixed rate instruments		
Financial assets	**2,308**	-
Financial liabilities	**(10,823)**	(12,745)
Variable rate instruments		
Financial assets	**-**	-
Financial liabilities	**(39,765)**	(44,265)
Total	**(50,588)**	(57,010)

Fair value sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates for the year would have increased or decreased net income and equity by:

	Net income and equity	
In thousands of US dollars	100bp increase	100bp decrease
2014		
Variable rate instruments	(151)	152
2013		
Variable rate instruments	(79)	86

This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

Credit Risk

The Company held cash and cash equivalents of $13,139 at December 31, 2014 (2013: $16,904), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A- to AA-, based on Standard and Poor's ratings.

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. Revenues from one customer represent approximately 10% (2013: 15%) of the Group's total revenues. Five customers represented 30% (2013: 39%) of the Company's total revenues in 2014 and 2013 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 believes that its five significant customers are credit worthy and has not recorded a provision for credit risk relating to these accounts.

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 $40 million. At year end, the Company had cash of $13 million and unused facility of $40 million (2013: cash of $21 million and unused facility of $39.2 million).

Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, share purchase loans, convertible promissary note, demand loan, accounts payable and accrued liabilities, interest rate swap, term loan and other debt and foreign exchange hedge. The fair values of cash and cash equivalents, accounts receivable, share purchase loans, convertible promissary note, demand loan, accounts payable and accrued liabilities, interest rate swap and foreign exchange hedge, as recorded in the consolidated balance sheets approximate their carrying amounts due to the short-term maturities of these instruments. The fair value of the long term loan has been discounted using current market interest rates.

The carrying value and fair value are as follows:

December 31, 2014 *In thousands of US dollars*	**Financial Instruments designated at fair value**	**Loans and Receivables (amortized at cost)**	**Other financial liabilities (amortized at cost)**	**Total carrying amount**	**Total fair value**
Cash and cash equivalents	13,139	-	-	13,139	13,139
Trade and other accounts receivable	-	42,546	-	42,546	42,546
Share Purchase loans	-	1,776	-	1,776	1,776
Convertible Promissory Note	-	582	-	582	582
Total financial assets	13,139	44,904	-	58,043	58,043
Interest rate swap	-	-	76	76	76
Foreign Exchange Hedge	-	-	116	116	116
Long term loan	-	-	50,872	50,872	51,464
Other liabilities	-	-	47,807	47,807	47,807
Total financial liabilities	-	-	98,871	98,871	99,463

December 31, 2013 *In thousands of US dollars*	**Financial Instruments designated at fair value**	**Loans and Receivables (amortized at cost)**	**Other financial liabilities (amortized at cost)**	**Total carrying amount**	**Total fair value**
Cash and cash equivalents	16,904	-	-	16,904	16,904
Trade and other accounts receivable	-	42,633	-	42,633	42,633
Total financial assets	16,904	42,633	-	59,537	59,537
Demand loan	-	-	818	818	818
Long term loan	-	-	57,113	57,113	57,966
Other liabilities	-	-	47,098	47,098	47,098
Total financial liabilities	-	-	105,029	105,029	105,882

The fair value of the share purchase loans, convertible promissory note and long term loan has been based on market interest rate (level 2) in 2013 and 2014. The Group has not disclosed the fair values for financial instruments (trade and other accounts receivable and other liabilities) as their carrying amounts approximate their fair values (level 3). There were no reclassifications between classes of financial assets and financial liabilities in 2013 and 2014. There were no transfers between levels of the fair value hierarchy in 2013 and 2014.

Capital Management

The Company has defined its capital as follows:

December 31 *In thousands of US dollars*	**2014**	2013
Cash and cash equivalents	**(13,139)**	(16,904)
Term loan and other debt	**50,948**	57,113
Net debt	**37,809**	40,209
Shareholders' equity	**90,035**	81,140
	127,844	121,349

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 $40 million committed revolving line of credit that provides liquidity and flexibility when capital markets are restricted. Directors and Officers currently own 27.9% or 6,422,119 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 has a dividend policy to provide an additional return to shareholders; the decision to pay dividends is reviewed quarterly.

The Board will review, from time-to-time, whether to implement or extend the Normal Course Issuer Bid or an offering if it will be accretive to shareholders.

The Company's approach to capital management is expected to remain unchanged in 2015.

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

Corporate Information

Board of Directors

Richard F. Crowe (1) (2) (3)
Aurora, Ontario

Mary Matthews, CPA, CA, ICD.D. (1) (2) (3)
Toronto, Ontario

Robert L. McLeish (1) (2) (3)
Port Carling, Ontario

Brian A. Robbins (1)
President and CEO, Exco Technologies Limited
Aurora, Ontario

P. Grenville Schoch
Chairman and CEO, AirBoss of America Corp.
Aurora, Ontario

Alan J. D. Watson (3)
Sydney, AU

Robert Hagerman
Aurora, ON

Solicitors

Davies Ward Phillips & Vineburg LLP
Toronto, Ontario

Auditors

KPMG LLP
Toronto, Ontario

Transfer Agent And Registrar

Computershare Investor Services, Inc.
Toronto, Ontario

Stock Symbol Toronto Stock Exchange: BOS
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Our Annual Meeting is Thursday, May 14, 2015
at 4:30 pm at Magna Golf Club,
14780 Leslie Street, Aurora, Ontario

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of Corporate Governance Committee

AirBoss of America Corp.

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President:
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Chief Financial Officer:
Wendy Ford

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Doug Reid

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