AirBoss of America Corp.

2012

Second Quarter Interim Report

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

Rubber Compounding

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

Defense and Industrial Products ("AEP")

Manufacturer of Chemical, Biological, Radiological and Nuclear ("CBRN") protective wear for defense and first response applications. Manufactures extruded, calendered, cushion gum, and compression molded rubber products.

To Our Shareholders

2012

AirBoss Rubber Compounding

After an excellent start to the quarter in April, volumes declined for the rest of the second quarter due to the continued slowdown of mixing for major tire companies and the sudden decline in demand for compounds in the heavy conveyor belting sector due to reduced coal industry requirements. Other market segments were comparable to the previous year. The temporary drop in tire company requirements was cautioned last quarter and we expect this to continue until September, at which time volumes should begin to increase again. The slowdown in belting compound demand is forecasted to continue for the remainder of the year.

Operational efficiencies have improved as a result of corrective capital expenditure programs in our Scotland Neck facility where downtime has been reduced significantly in the quarter. This has helped to maintain margins despite the reduced volumes.

Raw materials, particularly natural rubber and synthetic polymers, are expected to trend downwards slightly. As older inventories are used and pricing is revised to reflect these lower raw material costs, working capital requirements will also come down.

AirBoss Engineered Products

The Industrial Rubber products division is slightly ahead of plan for the six months ended June 2012, as a result of new business providing products for the pre-cured tread tire retreading industry. Demand for recreational and industrial rubber track and hose products has also been strong in the quarter.

AirBoss-Defense is also on plan, although due to significantly less demand from the US, sales are significantly diminished from previous years. Sales efforts going forward will be focused on new territories to diminish the impact of this change. In July, the division moved into their new administrative and R&D headquarters in Bromont, Quebec. We are currently working on several new CBRN protective wear products with our academic and industry partners with varying timelines to completion.

2012 Highlights:

- Declared dividend $0.05 payable October 18, 2012
- Opened R&D centre in Bromont, Quebec July 30, 2012

Outlook

Volumes for the tire and belting sectors have been below the expectations set at the beginning of the year. We do not see a significant recovery in belting until such time as coal production in North America recovers. We are, however, more optimistic about a potentially earlier increase in mixing for the tire industry. There are indications that this could occur as early as the fourth quarter of this year. The remainder of our industry sectors have met expectations to date and are expected to continue to do so. We have made some inroads in new sectors and expect this momentum to continue.

The military products business is expected to achieve plan for the year, albeit at a reduction to the previous year due to decreased US spending. The industrial products business is performing slightly ahead of expectations and this is expected to continue. As in previous years, both of these operations are seasonally slow at the beginning of the third quarter.

The new Military Products office and R&D centre successfully opened in July, 2012 and all major product development projects are progressing on schedule. This schedule has prototypes for three new CBRN prototype products being completed by the end of 2012 and another early in 2013.

In the second quarter we improved the net accounts receivable, inventory and accounts payable position by over $5 million and this trend should continue in the third quarter. Raw material prices are expected to trend slightly lower and this should positively impact results over the next six months. The combination of lower material costs and working capital funding requirements should increase cash generated over the next six months.

P.G. Schoch
Chairman

R.L. Hagerman
President and CEO

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of AirBoss of America Corp. ("AirBoss" or the "Company") has been prepared as of August 8, 2012 and should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements and Notes for the three-month and six-month periods ended June 30, 2012 and the MD&A for the year ended December 31, 2011. The condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial reporting. The Audit Committee and Board of Directors have reviewed and approved the contents of this MD&A, the financial statements and the second quarter press release. All dollar amounts are shown in thousands of US dollars, except per share amounts, unless otherwise specified. Additional information regarding the Company, including its Annual Information Form, can be found on SEDAR at **www.sedar.com** and on the Company's website at **www.airbossofamerica.com**.

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

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

This list is not exhaustive of the factors that may affect any of AirBoss' forward-looking statements. Investors are cautioned not to put undue reliance on forward-looking statements. All subsequent written and oral forward-looking statements attributable to AirBoss or persons acting on its behalf are expressly qualified in their entirety by this notice. Whether as a result of new information, future events or otherwise, AirBoss disclaims any intent or obligation to update publicly these forward-looking statements. Risks and uncertainties about AirBoss' business are more fully discussed under the "Risk Factors" section of the Company's annual report on pages 13-15.

Highlights

Current industry trends, such as a general slower economic environment, are negatively impacting our results.

Our Rubber Compounding division sells to customers who in turn, sell to the mining sector. The thermal energy coal industry has been negatively impacted in the second quarter as utilities switch to cheaper natural gas resulting in record high stockpiles of coal. Demand for coal dropped 5% in 2011 and is expected to drop another 14% in 2012 according to the US Energy Information Administration.

Defense Product sales are impacted by US Defense spending budget reductions. There has been a lot of volatility in raw material costs with a general increase during the quarter.

One-time expenses incurred in Q2 include:

- Ohio Commercial Activity Tax ("CAT") assessment of $0.3 million
- Loss on sale of injection molding equipment and consolidating operations in Quebec and Vermont of $0.4 million

Key initiatives to add shareholder value or counter these industry trends include:

- Generating strong cash-flow by planning and managing capital expenditures, earnings and working capital
- Focus on sustainability by investing in R&D to develop new products, markets and cost efficiencies

MD&A (cont'd)

Selected Financial Information

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Financial results:				
Net sales	**66,784**	77,440	**136,683**	147,756
Net income	**1,621**	4,527	**3,908**	8,824
Net income per share				
– Basic	**0.07**	0.19	**0.17**	0.37
– Diluted	**0.07**	0.19	**0.17**	0.37
EBITDA (non-IFRS financial measure)	**3,820**	7,995	**8,440**	15,990
Net cash provided by (used in) operating activities	**6,388**	(7,145)	**(7,361)**	(8,266)
Dividends declared per share	**0.05**	0.0375	**0.0875**	0.0675
Capital expenditures and intangibles	**2,340**	1,025	**3,710**	1,773

Financial position:	**June 30, 2012**	December 31, 2011
Total assets	**131,455**	127,754
Term loan and other debt	**9,443**	9,774
Shareholders' equity	**79,741**	79,179
Outstanding shares	**23,017***	23,330

**22,997 at August 8, 2012*

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, from continuing operations:

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 pay 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:

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
EBITDA:				
Net income	**1,621**	4,527	**3,908**	8,824
Net financing interest expense	**302**	377	**545**	730
Depreciation and amortization	**1,336**	1,209	**2,645**	2,371
Provision for income taxes	**561**	1,882	**1,342**	4,065
EBITDA	**3,820**	7,995	**8,440**	15,990

MD&A (cont'd)

RESULTS OF OPERATIONS – 2012 compared to 2011

NET SALES FROM CONTINUING OPERATIONS

Net Sales decreased by 13.8% in 2012 related to economic weakness in the business segments served.

Three months ended June 30		Rubber Compounding Operations	AEP & Other	Total
Net sales	**2012**	**51,072**	**15,712**	**66,784**
	2011	57,512	19,928	77,440
Increase (decrease) $		(6,440)	(4,216)	(10,656)
Increase (decrease) %		(11.2)	(21.2)	(13.8)

Six months ended June 30		Rubber Compounding Operations	AEP & Other	Total
Net sales	**2012**	**105,832**	**30,851**	**136,683**
	2011	109,336	38,420	147,756
Increase (decrease) $		(3,504)	(7,569)	(11,073)
Increase (decrease) %		(3.2)	(19.7)	(7.5)

Rubber Compounding

Sales for the three-month period ended June, 2012 decreased by 11.2% compared to the same period in 2011, due to lower volumes in two key markets. Volumes decreased 21.4% from demand weakness in both the major tire tolling and belting sectors. Tolling volumes decreased 47% in the quarter. Sales dollars decreased 3.2% year-to-date primarily from lower volumes.

The belting sector orders, which had been steady in the first four months of the year, declined dramatically at the end of May due to reduced demand from the coal sector. These conditions are expected to continue for the remainder of the year. Tire tolling is expected to increase marginally in the third quarter due to initiating business with a new customer and some increased business supplying back-up capacity for specific tire facilities with unplanned requirements. The Company is optimistic that there will be an increasing number of opportunities to return tire volumes to previous levels by the fourth quarter.

AirBoss Engineered Products

AirBoss Engineered Products ("AEP") sales decreased by $4,216 for the second quarter compared to the same period in 2011. This was due to reduced sales of defense products of $3,466 attributable to US Department of Defense ("DoD") budget cuts in 2012 for Chemical, Biological, Radiological and Nuclear ("CBRN") programs and a decrease of $750 in industrial rubber product sales due to price reductions from declining raw material prices.

For the six-month period, lower custom mixing sales of $4.3 million of industrial products was offset by higher sales of tire retreading related products.

Defense products sales decreased by $8,170 or 37.9% over 2011. US DoD 2012 budget cuts reduced CBRN sales of the defense products Division by $10.2 million compared to 2011. This was partially offset by $1,000 sales of molded boots to the Canadian Department of National Defense, $800 increase in fireboot sales, and $300 contract for mask equipment overseas.

On May 9th, 2012, AirBoss received an order of $5.6 million ($2.3 million higher than expected) from US DoD for 139,560 pairs of over-boots. AEP is adding production capacity in August, 2012 to produce and deliver most of the order in 2012.

GROSS MARGIN

Consolidated gross margin for the quarter ended June 30, 2012 was $6,423, a decrease of $3,560 from 2011. This was primarily attributable to lower volumes of Defense Products.

Three months ended June 30		Rubber Compounding Operations	AEP & Other	Total
Gross Margin	**2012**	**4,204**	**2,219**	**6,423**
	2011	4,277	5,706	9,983
Increase (decrease) $		(73)	(3,487)	(3,560)
% of net sales	**2012**	**8.2**	**14.1**	**9.6**
	2011	7.4	28.6	12.9

Six months ended June 30		Rubber Compounding Operations	AEP & Other	Total
Gross Margin	**2012**	**8,714**	**5,311**	**14,025**
	2011	9,655	11,291	20,946
Increase (decrease) $		(941)	(5,980)	(6,921)
% of net sales	**2012**	**8.2**	**17.2**	**10.3**
	2011	8.8	29.4	14.2

MD&A (cont'd)

RESULTS OF OPERATIONS – 2012 compared to 2011 *(continued)*

Rubber Compounding

Gross margin for Rubber Compounding, decreased by $73 in the second quarter, compared to the same quarter in 2011. This was due to lower compounding and tolling volumes. Conversion costs in Q2 included an Ohio CAT tax assessment for prior years of $0.3 million.

AirBoss Engineered Products

Total gross margin for three months ended June 30 for AirBoss Engineered Products had decreased by $3,487 compared to 2011. This was primarily due to lower sales of defense products. Manufacturing volume declines of defense products also created production inefficiencies that were not offset in the short-term. Capital investments to expand industrial product offerings occurred at the end of 2011 and continued expansion of fire-boot production should contribute to improved productivity in 2012. One-time charges in the quarter included:

- Loss on sale of Kitchener injection molding equipment $140
- Costs to consolidate remaining molding equipment in Quebec and Vermont $253

Total gross margin for six months ended June 30 for AirBoss Engineered Products decreased by $5,980 compared to 2011. This was primarily from $10.2 million lower sales of defense products and $393 of the one-time costs incurred in the second quarter listed above.

OPERATING EXPENSES

Consolidated operating expenses increased for the quarter by $742 primarily in R&D. Lower R&D tax credits recognized of $114, additional 2012 R&D headcount $140, higher subcontracted R&D work and professional fees $202, higher general and administration $88, and lower foreign exchange income $212.

Three months ended June 30		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Operating expenses	**2012**	**1,896**	**1,375**	**668**	**3,939**
	2011	1,496	1,369	332	3,197
Increase (decrease) $		400	6	336	742
% of net sales	**2012**	**3.7**	**8.8**	**N/A**	**5.9**
	2011	2.6	6.9	N/A	4.1

Six months ended June 30		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Operating expenses	**2012**	**3,867**	**2,911**	**1,452**	**8,230**
	2011	2,989	2,718	1,620	7,327
Increase (decrease) $		878	193	(168)	903
% of net sales	**2012**	**3.7**	**9.4**	**N/A**	**6.0**
	2011	2.7	7.1	N/A	5.0

Rubber Compounding

For the quarter and six-month period ended June 30, 2012, Rubber Compounding expenses increased by $400 and $878 respectively. The major contributor to this increase was $145 ($319 year-to-date) for the new product development office in Wake Forrest, NC.

In addition, $124 in lower R&D tax credits were recognized in the quarter, whereas the year-to-date balance includes a $136 adjustment related to prior year. Foreign exchange losses were $88 in the quarter and year-to-date.

AirBoss Engineered Products

For the quarter ended June 30, 2012, AEP's expenses increased by $6. R&D costs increased $66 primarily from the timing for recognition of R&D tax credits; these increases were partially offset by currency translation gains.

For the first six months of 2012, AEP's operating expenses increased $193 primarily related to $175 lower R&D tax credits recognized in the quarter, $119 higher subsidies recognized, partially offset by $171 additional subcontracted activities relating to current projects. Lower sales and marketing costs primarily related to restructuring fire-boot sales were offset by $200 of lower foreign exchange gains and other income.

Unallocated Corporate Costs

Unallocated corporate costs increased in the quarter by $336 compared to 2011 primarily due to exchange losses of $89 compared to exchange gains of $343 of last year. This was offset by lower public reporting expenses.

The first six months expenses decreased by $168 primarily due to lower professional fees and public reporting expenses of $256 and partially offset by exchange losses.

RESULTS OF OPERATIONS – 2012 compared to 2011 *(continued)*

FINANCE COST

Three months ended June 30		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Finance cost	**2012**	**175**	**110**	**17**	**302**
	2011	214	135	28	377
Increase (decrease) $		(39)	(25)	(11)	(75)
% of net sales	**2012**	**0.3**	**0.7**	**N/A**	**0.5**
	2011	0.4	0.7	N/A	0.5

Six months ended June 30		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Finance cost	**2012**	**308**	**188**	**49**	**545**
	2011	398	271	61	730
Increase (decrease) $		(90)	(83)	(12)	(185)
% of net sales	**2012**	**0.3**	**0.6**	**N/A**	**0.4**
	2011	0.4	0.7	N/A	0.5

Finance costs in 2012 were $302 for the quarter, (2011: $377) and year-to-date $545 (2011: $730) and were impacted by lower borrowing levels.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $561 or an effective income tax rate for the quarter of 25.7% (29.3% in 2011). The statutory rate in Canada decreased 1.5% in 2012 to 25%.

The current quarter's tax expense was reduced by $10 relating to differences on filing its Canadian tax returns.

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

NET INCOME AND EARNINGS PER SHARE

Net income in 2012 amounted to $1,621 and $3,908 for the quarter and year-to-date compared to $4,527 and $8,824 in 2011 primarily attributable to lower AEP divisional results. The basic and fully diluted net income per share in the second quarter and year-to-date were $0.07 (2011 - $0.19) and $0.17 (2011- $0.37) based on basic and fully diluted shares outstanding of 23,032,510 (2011 - 23,628,596) and 23,205,060 (2011 - 24,121,751) respectively.

QUARTERLY INFORMATION

Quarter Ended	Net Sales	Net Income	Net Income per share Basic	Net Income per share Diluted
2012				
June 30, 2012	66,784	1,621	0.07	0.07
March 31, 2012	69,899	2,287	0.10	0.10
2011				
December 31, 2011	61,654	595	0.03	0.03
September 30, 2011	73,109	3,585	0.15	0.15
June 30, 2011	77,440	4,527	0.19	0.19
March 31, 2011	70,316	4,297	0.18	0.18
2010				
December 31, 2010	64,675	4,639	0.20	0.20
September 30, 2010	58,691	3,677	0.15	0.15

Items impacting comparability of quarters

- The quarter ended September 30, 2011 was impacted by a 29% reduction in sales of Defense products.
- The quarter ended December 31, 2011 was impacted by lower Rubber compounding volumes and US DoD contract administration and inspection delays of Defense products, resulting in a deferral of revenue to the first quarter of 2012. The defense product shipping delays impacted earnings per share by between $0.02 and $0.03.
- March and June, 2012 were impacted by lower Defense sales. June, 2012 was further impacted by lower Compounding sales relating to economic weakness in energy generating sectors and non-recurring charges of $0.7 million.

RESULTS OF OPERATIONS – 2012 compared to 2011 *(continued)*

LIQUIDITY AND CAPITAL RESOURCES

Overview

With increased profitability from its operating segments, AirBoss has been generating a reasonable amount of cash-flow from its operations. The funds have been used to invest in product research and capital expenditures, as well as dividends to shareholders and term-debt repayment. The term debt was primarily used to supplement funds from operations as required.

The Company expects to fund its 2012 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.

In the six-month period ended June 30, 2012, $7,361 of cash was used by operations, $3,710 was used for investing activities and $3,575 was used in financing activities. Cash and cash equivalents decreased by $14,646 from $6,418 to bank indebtedness of $8,270.

Operating activities

The factors contributing to the reduction of cash generated from operating activities before changes in non-cash working capital compared to 2011 include:

- Lower income $4,916 from lower sales
- Decrease in tax expense of $2,723

The change in the investment in non-cash working capital was $16,133 (2011: $24,381) for the period ended June 30, 2012.

An overall decrease in inventory of $1,742 occurred as a result of managing working capital requirements relating to lower sales. Defense products inventory on hand, at December 31, 2011 relating to delayed sales, was shipped in the first quarter.

Accounts Receivable increased $7,702 on timing of collections and increasing terms with certain customers.

Annual insurance policies were renewed and premiums were paid in the second quarter; this accounted for the majority of the increase in prepaid expenses of $672.

Accounts payable decreased by $6,057 as a result of managing inventory requirements.

Income taxes paid were $2,974 from the timing of required remittances.

The Company paid interest of $470 during the six-month period.

Property, plant and equipment

In 2012, property, plant and equipment additions were $3,427 (2011: $1,528).

Rubber Compounding invested $823 in North Carolina's equipment utilization improvement projects and $892 for Kitchener's building upgrades, $17 for cost savings and $47 to support growth.

AEP invested $1,785 in property, plant and equipment. Of this, $451 was invested to replace industrial products machinery and equipment. AirBoss-Defense invested $981 for its Bromont R&D centre and $353 to support growth and cost savings for manufacturing equipment.

Intangible assets

Software development costs of $283 (2011: $260) were capitalized for new modules implemented in the quarter.

Other investments including derivatives

During the quarter, the Company entered into forward contracts to buy CAD $22,997 between May and December, 2012 for USD $23,000. There were forward contracts to buy CAD $17,791 for USD $17,800 outstanding as of June 30, 2012.

Financing activities

At June 30, 2012, AirBoss had $113 drawn against its operating facility.

During the six-month period, the required principal repayments of $334 (2011: $626) were made pursuant to the loan agreement.

The unused line of credit at June 30, 2012 was CAD $34.9 million.

The Company expects to fund its 2012 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.

Government Grants

During the first six months of 2012, AEP recognized grants of $285 to support certain initiatives (2011: nil) which were offset against expenses. In addition, $101 was recognized from the province of Quebec in respect of the new R&D facility in Bromont, Quebec. Capital assets were adjusted accordingly.

During the first six months of 2012, the Rubber Compounding division recognized $20 to support certain green initiatives (2011: nil) from a provincial program which was offset against expenses.

Scientific research and investment tax credits of $144 were recognized in 2012 (2011: $526); R&D costs were adjusted accordingly. In addition, $158 (2011: nil) was recognized as a reduction to capital assets in respect of provincial tax credits.

Dividends

A $0.0375 per share dividend was declared on March 21, 2012 and paid April 19, 2012; $0.05 per share quarterly dividend was declared in the second quarter and paid July 19, 2012 and a $0.05 per share quarterly dividend was declared in the third quarter and will be paid October 18, 2012. Total dividends declared during 2011 were $0.1425 per common share.

Outstanding shares

As at August 8, 2012, the Company had 23,007,515 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

Included in the operating lease commitments is a rental agreement for corporate office space between the Company and a company controlled by the Chairman of the Company. The lease provides for monthly payments equivalent to an annual rental of $90 and expires in August, 2012. Negotiations to renew are underway. The lease provides for the purchase of the building should certain events occur which are beyond the control of the Chairman. The annual rental of $90 CAD per annum approximated fair market rental value at the inception of the lease in 2002. During the quarter, the Company paid rent of $23 (2011- $23), year-to-date $45 (2011-$54).

During the quarter, the Company paid annual dues relating to a facility in South Carolina of approximately $5 (2011: $5), year-to-date $10 (2011-$10) to a company in which the Chairman is an officer.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent period, there have been no changes in the Company's policies and procedures and other processes that comprise its internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

OUTLOOK

Volumes for the tire and belting sectors have been below the expectations set at the beginning of the year. We do not see a significant recovery in belting until such time as coal production in North America recovers. We are, however, more optimistic about a potentially earlier increase in mixing for the tire industry. There are indications that this could occur as early as the fourth quarter of this year. The remainder of our industry sectors have met expectations to date and are expected to continue to do so. We have made some inroads in new sectors and expect this momentum to continue.

The military products business is expected to achieve plan for the year, albeit at a reduction to the previous year due to decreased US spending. The industrial products business is performing slightly ahead of expectations and this is expected to continue. As in previous years both of these operations are seasonally slow at the beginning of the third quarter.

The new Military Products office and R&D centre successfully opened in July, 2012 and all major product development projects are progressing on schedule. This schedule has prototypes for three new CBRN prototype products being completed by the end of 2012 and another early in 2013.

In the second quarter we improved the net accounts receivable, inventory and accounts payable position by over $5 million and this trend should continue in the third quarter. Raw material prices are expected to trend lower and this should positively impact results over the next six months. The combination of lower material costs and working capital funding requirements should increase cash generated over the next six months.

August 8, 2012

R.L. Hageman
President and Chief Executive Officer

S.W. Richards
Vice-President Finance and CFO

Condensed Consolidated Statement of Financial Position

Unaudited

In thousands of US dollars	*Note*	**June 30, 2012**	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents		**-**	6,418
Trade and other receivables	*4*	**36,094**	28,384
Assets held for sale	*16*	**130**	-
Prepaid expenses		**1,633**	965
Inventories	*5*	**38,017**	39,759
Current income taxes receivable		**1,992**	240
Total current assets		**77,866**	75,766
Non-current assets			
Property, plant and equipment		**43,678**	42,831
Intangible assets		**7,929**	7,841
Other investments, including derivatives	*6*	**136**	136
Deferred income tax assets	*11*	**1,846**	1,180
Total non-current assets		**53,589**	51,988
Total assets		**131,455**	127,754
LIABILITIES			
Current liabilities			
Bank indebtedness		**8,270**	-
Loans and borrowings	*7*	**754**	755
Trade and other payables, including derivatives		**23,568**	28,944
Total current liabilities		**32,592**	29,699
Non-current liabilities			
Loans and borrowings	*7*	**8,689**	9,019
Employee benefits	*13*	**3,627**	3,573
Provisions	*8*	**98**	98
Deferred tax liabilities	*11*	**6,708**	6,186
Total non-current liabilities		**19,122**	18,876
Total liabilities		**51,714**	48,575
EQUITY			
Share capital	*9*	**38,002**	38,542
Contributed surplus	*9*	**1,754**	1,581
Retained earnings		**39,985**	39,056
Total equity		**79,741**	79,179
Total liabilities and equity		**131,455**	127,754

The notes on pages 15 to 21 are an integral part of these condensed consolidated financial statements.

Subsequent event (note 16).

Condensed Consolidated Statement of Income and Comprehensive Income

Unaudited

For the three and six month periods ended June 30		Three-month		Six-month	
In thousands of US dollars	*Note*	**2012**	2011[1]	**2012**	2011[1]
Revenue		**66,784**	77,440	**136,683**	147,756
Cost of sales		**(60,361)**	(67,457)	**(122,658)**	(126,810)
Gross profit		**6,423**	9,983	**14,025**	20,946
General and administrative expenses		**(2,570)**	(2,581)	**(4,974)**	(5,156)
Selling and marketing expenses		**(1,000)**	(1,009)	**(1,939)**	(1,972)
Research and development expenses	*12*	**(235)**	154	**(853)**	(269)
Other income		**(134)**	239	**(464)**	70
Operating Expenses		**(3,939)**	(3,197)	**(8,230)**	(7,327)
Results from operating activities		**2,484**	6,786	**5,795**	13,619
Finance costs	*7, 13*	**(302)**	(377)	**(545)**	(730)
Profit before income tax		**2,182**	6,409	**5,250**	12,889
Income tax expense	*11*	**(561)**	(1,882)	**(1,342)**	(4,065)
Profit and total comprehensive income for the period		**1,621**	4,527	**3,908**	8,824
Earnings per share to the equity holders:					
Basic	*10*	**0.07**	0.19	**0.17**	0.37
Diluted	*10*	**0.07**	0.19	**0.17**	0.37

[1] Certain comparative figures have been reclassified to conform with current year's presentation.

The notes on pages 15 to 21 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity

Unaudited

	Attributable to equity holders of the Company			
In thousands of US dollars	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance at January 1, 2011	38,573	1,679	31,024	71,276
Profit and total comprehensive income for the period	-	-	8,824	8,824
Contributions by and distributions to owners				
Stock options expensed	-	278	-	278
Stock options exercised	159	(159)	-	-
Dividends to equity holders	-	-	(1,636)	(1,636)
Total contributions by and distributions to owners	159	119	(1,636)	(1,358)
Balance at June 30, 2011	38,732	1,798	38,212	78,742
Balance at January 1, 2011	38,573	1,679	31,024	71,276
Total comprehensive income for the period				
Profit for the year	-	-	13,004	13,004
Other comprehensive income				
Defined benefit plan actuarial gains/(losses), net of tax	-	-	(158)	(158)
Total other comprehensive income	-	-	(158)	(158)
Total comprehensive income for the period	-	-	12,846	12,846
Contributions by and distributions to owners				
Stock options expensed	-	592	-	592
Stock options exercised	690	(690)	-	-
Shares repurchased to settle loan to officer	(50)	-	(97)	(147)
Normal Course Issuer Bid	(671)	-	(1,321)	(1,992)
Dividends to equity holders	-	-	(3,396)	(3,396)
Total contributions by and distributions to owners	(31)	(98)	(4,814)	(4,943)
Balance at December 31, 2011	38,542	1,581	39,056	79,179
Profit and total comprehensive income for the period	-	-	3,908	3,908
Contributions by and distributions to owners				
Stock options expensed	-	173	-	173
Normal Course Issuer Bid	(540)	-	(972)	(1,512)
Dividends to equity holders	-	-	(2,007)	(2,007)
Total contributions by and distributions to owners	(540)	173	(2,979)	(3,346)
Balance at June 30, 2012	38,002	1,754	39,985	79,741

The notes on pages 15 to 21 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

Unaudited

For the six-month period ended June 30 *In thousands of US dollars*	*Note*	**2012**	2011
Cash flows from operating activities			
Profit for the period		**3,908**	8,824
Adjustments for:			
Depreciation		**2,358**	2,234
Amortization of intangible assets		**181**	137
Loss on disposal of property, plant and equipment		**106**	-
Net finance costs		**545**	730
Unrealized foreign exchange (gains)/losses		**366**	378
Equity-settled share-based payment expense	*9*	**173**	278
Current income tax expense	*11*	**1,532**	2,620
SRED tax credits		**(188)**	(526)
Deferred income tax expense	*11*	**(190)**	1,445
Post-retirement benefits expense	*13*	**(19)**	(20)
		8,772	16,100
Change in inventories		**1,742**	(10,840)
Change in trade and other receivables		**(7,702)**	(18,786)
Change in prepayments		**(672)**	1,298
Change in trade and other payables		**(6,057)**	7,831
Change in provisions and employee benefits		**-**	(165)
Interest paid		**(470)**	(656)
Income tax paid		**(2,974)**	(3,063)
Net change in non-cash or working capital balances		**(16,133)**	(24,381)
Net cash used in operating activities		**(7,361)**	(8,281)
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(3,427)**	(1,513)
Acquisition of intangible assets		**(283)**	(260)
Net cash used in investing activities		**(3,710)**	(1,773)
Cash flows from financing activities			
Repayment of borrowings		**(334)**	(626)
Dividends paid	*9*	**(1,729)**	(1,447)
Normal Course Issuer Bid		**(1,512)**	-
Net cash used in financing activities		**(3,575)**	(2,073)
Net decrease in cash and cash equivalents		**(14,646)**	(12,127)
Cash and cash equivalents at January 1		**6,418**	13,300
Effect of exchange rate fluctuations on cash held		**(42)**	158
(Bank indebtedness) Cash and cash equivalents at June 30		**(8,270)**	1,331

The notes on pages 15 to 21 are an integral part of these condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

Unaudited

For the three-month and six-month periods ended June 30, 2012 and 2011
(Amounts in thousands of US dollars, except per share amounts, unless otherwise specified)

NOTE 1 REPORTING ENTITY

AirBoss of America Corp. ("the Company") is a public company listed on the Toronto Stock Exchange, incorporated and domiciled in Canada. The address of the Company's registered office is 16441 Yonge Street, Newmarket, Ontario, Canada. The condensed consolidated financial statements of the Company as at and for the three-month and six-month periods ended June 30, 2012 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in jointly controlled 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 and industrial markets (see note 14).

NOTE 2 BASIS OF PREPARATION

Statement of compliance

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

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies are provided in note 3 to the annual consolidated financial statements for the year ended December 31, 2011 and have been applied consistently to all periods presented in these consolidated financial statements.

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

NOTE 4 TRADE AND OTHER RECEIVABLES

In thousands of US dollars	**June 30, 2012**	December 31, 2011
Trade receivables	**34,927**	26,767
Less: allowance for doubtful accounts	**(63)**	(96)
	34,864	26,671
Other receivables	**1,230**	1,713
	36,094	28,384

Impairment losses

The aging of trade receivables at the reporting date was:

	June 30, 2012		December 31, 2011	
In thousands of US dollars	**Gross**	**Impairment**	Gross	Impairment
Within terms	**28,091**	**-**	20,187	-
Past due 0-30 days	**6,119**	**-**	5,756	-
Past due 31-120 days	**717**	**(63)**	824	(96)
	34,927	**(63)**	26,767	(96)

The continuity of the allowance for doubtful accounts was:

In thousands of US dollars	**June 30, 2012**	December 31, 2011
Balance at January 1	**(96)**	(50)
Impairment loss recognized	**(26)**	(104)
Revise estimate/write-off	**58**	57
Effect of movements in exchange rates	**1**	1
	(63)	(96)

Notes to CFS (cont'd)

NOTE 5 INVENTORIES

In thousands of US dollars	**June 30, 2012**	December 31, 2011
Raw materials and consumables	**27,657**	27,868
Work in progress	**3,269**	4,024
Finished goods	**5,189**	6,271
Inventory in transit	**2,001**	1,504
Other inventory	**988**	988
	39,104	40,655
Provisions	**(1,087)**	(896)
	38,017	39,759

An inventory impairment charge of $222 was included (2011: a recovery of $267) in costs of sales.

NOTE 6 OTHER INVESTMENTS

In thousands of US dollars	**June 30, 2012**	December 31, 2011
Non-current investments		
Other investments	**136**	136

Derivatives not meeting hedge accounting criteria:

At June 30, 2012, the Company had contracts to sell US $17,800 between August and December for CAD $18,122. The fair value of these contracts, representing a net loss of $326, is recorded on the statement of financial position included in trade and other payables, including derivatives and recorded on the statement of income as other income (expense). There were no forward contracts outstanding at December 31, 2011.

NOTE 7 LOANS AND BORROWINGS

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

NOTE 8 PROVISIONS

In thousands of US dollars	Site restoration	Legal	Total
Balance at January 1, 2011	102	212	314
Provisions used during the period	-	(73)	(73)
Provisions reversed during the period	-	(100)	(100)
Foreign exchange	2	6	8
Balance at June 30, 2011	104	45	149
Balance at January 1, 2011	102	212	314
Provisions used during the year	-	(104)	(104)
Provisions reversed during the year	-	(115)	(115)
Foreign exchange	(4)	7	3
Balance at December 31, 2011	98	-	98
Balance at January 1, 2012	98	-	98
Provisions used during the period	-	-	-
Provisions reversed during the period	-	-	-
Foreign exchange	-	-	-
Balance at June 30, 2012	98	-	98

Notes to CFS (cont'd)

NOTE 9 CAPITAL AND OTHER COMPONENTS OF EQUITY

Issued share capital is as follows:

In thousands of shares	**June 30, 2012**	December 31, 2011
January 1	**23,330**	23,613
Exercise of share options	**-**	136
Repurchase of common shares	**(313)**	(419)
Balance	**23,017**	23,330

Issuance of common shares

During the second quarter of 2012, no options were exercised. During the second quarter of 2011, 149,000 options were exercised on a cash-less basis for 43,804 shares.

Repurchase of Common Shares

Year-to-date, the Company purchased for cancellation 313,043 (2011: nil) of its outstanding common shares pursuant to the Normal Course Issuer Bid ("NCIB") for $1,512 (2011: nil) at an average price of $4.85 (2011: nil). As a result of this purchase, the Company recorded a reduction to share capital and retained earnings of $540 (2011: nil) and $972 (2011: nil) respectively.

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:

Share options outstanding as at June 30

In thousands of shares	**2012**	2011
Share options granted and outstanding	**1,434**	1,934

At December 31, 2011, the Company had 1,434 share options granted and outstanding.

Notes to CFS (cont'd)

No share-based payment rewards were granted during 2012.

Stock option expense

Year-to-date, the Company recognized as employee costs $173 (2011: $278) relating to current and prior year option grants in general and administrative expenses in the statement of income.

Dividends

The following dividends were declared and paid by the Group:

	2012		2011	
Shareholder of record at:	**$ CAD**	**Date Paid**	$ CAD	Date Paid
June 30	**0.05**	**July 19, 2012**	0.0375	July 20, 2011
March 31	**0.0375**	**April 19, 2012**	0.03	April 20, 2011

NOTE 10 EARNINGS PER SHARE

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

	Common shares			
	Three-month period ended June 30		Six-month period ended June 30	
In thousands of shares	**2012**	2011	**2012**	2011
Weighted average number of common shares (basic)	**23,032**	23,628	**23,055**	23,621
Effect of share options on issue	**173**	494	**182**	513
Weighted average number of common shares (diluted) at June 30	**23,205**	24,122	**23,237**	24,134

At June 30, 2012, 796,000 options (2011: 100,000) 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.

Notes to CFS (cont'd)

NOTE 11 INCOME TAXES

In thousands of US dollars	Three months ended June 30 2012	2011	Six months ended June 30 2012	2011
Current tax expense				
Current period	**793**	1,341	**1,664**	2,534
Adjustment for prior periods	**(161)**	85	**(132)**	85
	632	1,426	**1,532**	2,619
Deferred tax expense:				
Origination and reversal of temporary differences	**(222)**	573	**(150)**	1,548
Adjustment for prior periods	**151**	(117)	**(40)**	(102)
	(71)	456	**(190)**	1,446
Total income tax expense	**561**	1,882	**1,342**	4,065

NOTE 12 GOVERNMENT ASSISTANCE

During the first six months of 2012, AEP recognized grants of $285 to support certain initiatives (2011: nil) which were offset against expenses. In addition, $101 was recognized from the province of Quebec in respect of the new R&D facility in Bromont, Quebec. Capital assets were adjusted accordingly.

During the first six months of 2012, the Rubber Compounding division recognized $20 to support certain green initiatives (2011: nil) from a provincial program which was offset against expenses.

Scientific research and investment tax credits of $144 were recognized in 2012 (2011: $526); R&D costs were adjusted accordingly. In addition, $158 (2011: nil) was recognized as a reduction to capital assets in respect of provincial tax credits.

NOTE 13 POST RETIREMENT BENEFITS

June 30 In thousands of US dollars	**Executive Supplemental plan** 2012	2011	**Other benefit plan** 2012	2011
The amounts recognized in the income statement are as follows:				
Current service cost	**-**	-	**(19)**	(20)
Interest cost	**63**	72	**14**	16
Expense	**63**	72	**(5)**	(4)

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

Notes to CFS (cont'd)

NOTE 14 SEGMENTED INFORMATION

Information about reportable segments Three months ended June 30	Rubber Compounding		Engineered Products		Corporate and Other		Total	
In thousands of US dollars	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Segment revenue	**53,796**	59,160	**16,279**	21,637	**-**	-	**70,075**	80,797
Inter-segment revenue	**(2,724)**	(1,648)	**(567)**	(1,709)	**-**	-	**(3,291)**	(3,357)
External revenues	**51,072**	57,512	**15,712**	19,928	**-**	-	**66,784**	77,440
Reportable segment profit before income tax	**2,134**	2,567	**734**	4,201	**(686)**	(359)	**2,182**	6,409
Reportable segment assets[1]	**87,981**	101,896	**42,304**	43,981	**1,170**	2,339	**131,455**	148,216
Reportable segment liabilities[1]	**26,105**	30,457	**6,613**	6,801	**18,996**	32,216	**51,714**	69,474
Depreciation and amortization	**731**	637	**605**	559	**15**	13	**1,351**	1,209
Finance cost (net)	**175**	214	**110**	135	**17**	28	**302**	376
Income tax expense	**586**	814	**237**	999	**(262)**	69	**561**	1,882
Capital expenditures[1]	**1,081**	318	**1,254**	673	**5**	34	**2,340**	1,025

Information about reportable segments Six months ended June 30	Rubber Compounding		Engineered Products		Corporate and Other		Total	
In thousands of US dollars	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Segment revenue	**110,733**	113,025	**32,485**	41,781	**-**	-	**143,218**	154,806
Inter-segment revenue	**(4,901)**	(3,689)	**(1,634)**	(3,361)	**-**	-	**(6,535)**	(7,050)
External revenues	**105,832**	109,336	**30,851**	38,420	**-**	-	**136,683**	147,756
Reportable segment profit before income tax	**4,539**	6,268	**2,213**	8,301	**(1,502)**	(1,680)	**5,250**	12,889
Reportable segment assets[1]	**87,981**	101,896	**42,304**	43,981	**1,170**	2,339	**131,455**	148,216
Reportable segment liabilities[1]	**26,105**	30,457	**6,613**	6,801	**18,996**	32,216	**51,714**	69,474
Depreciation and amortization	**1,493**	1,273	**1,124**	1,072	**28**	26	**2,645**	2,371
Finance cost (net)	**308**	398	**188**	271	**49**	61	**545**	730
Income tax expense	**1,108**	1,890	**841**	2,542	**(607)**	(367)	**1,342**	4,065
Capital expenditures[1]	**1,925**	425	**1,780**	1,295	**5**	53	**3,710**	1,773

[1] *Comparative figures as at June 30, 2011.*

Notes to CFS (cont'd)

Geographical segments

The Rubber Compounding, Engineered Products 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.

	Three months ended June 30, 2012	**Six months ended June 30, 2012**	**June 30, 2012**
In thousands of US dollars	**Revenues**	**Revenues**	**Non-current assets**
Canada	**21,855**	**48,746**	**43,989**
United States	**43,519**	**83,692**	**9,600**
Other countries	**1,410**	**4,245**	**-**
	66,784	**136,683**	**53,589**

	Three months ended June 30, 2011	Six months ended June 30, 2011	December 31, 2011
In thousands of US dollars	Revenues	Revenues	Non-current assets
Canada	21,692	40,600	43,879
United States	52,373	101,517	8,109
Other countries	3,375	5,639	-
	77,440	147,756	51,988

Major customers

Revenues from one customer represents approximately 21% (2011: 24.0%) of the Group's total revenues. Five customers represented 44% (2011: 55.9%) of the Company's total revenues.

NOTE 15 RELATED PARTIES

Related Party Transactions

Included in the operating lease commitments is a rental agreement for corporate office space between the Company and a company controlled by the Chairman of the Company. The lease provides for monthly payments equivalent to an annual rental of $90 and expires in August, 2012. Negotiations to renew are underway. The lease provides for the purchase of the building should certain events occur which are beyond the control of the Chairman. The annual rental of $90 CAD per annum approximated fair market rental value at the inception of the lease in 2002. During the quarter, the Company paid rent of $23 (2011: $23), year-to-date $45 (2011: $54).

During the quarter, the Company paid annual dues relating to a facility in South Carolina of approximately $5 (2011: $5), year-to-date $10 (2011: $10) to a company in which the Chairman is an officer.

NOTE 16 SUBSEQUENT EVENTS

Subsequent to quarter end, the Company sold manufacturing presses to an unrelated corporation for $130. $50 was received when the sale was completed. The remaining $80 will be received in six equal monthly payments of $13 each. At June 30, 2012, these assets were recorded as assets held for sale.

AirBoss of America Corp.

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