Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012
(Amounts in thousands of US dollars, except per share amounts, unless otherwise specified)

NOTE 1 REPORTING ENTITY

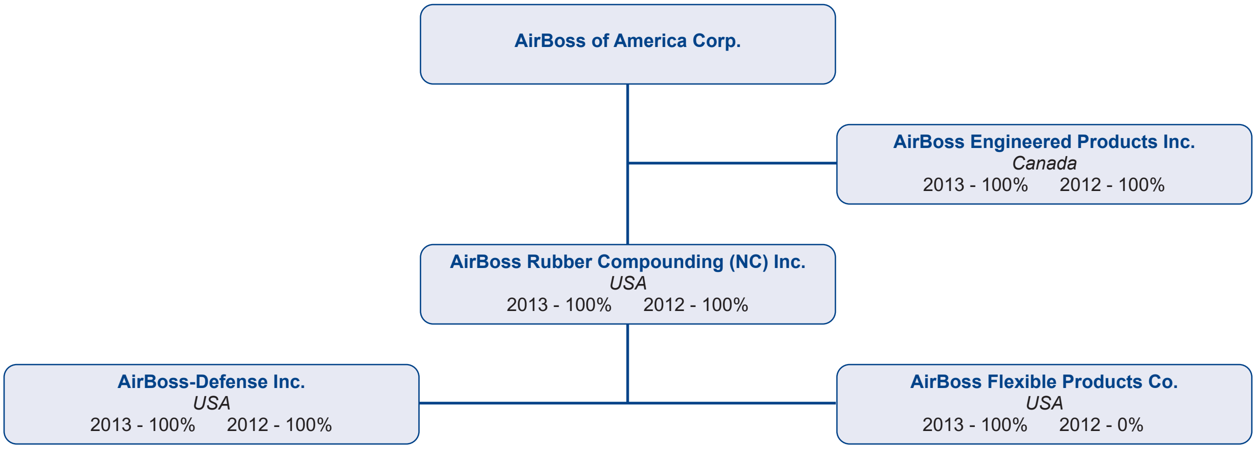
AirBoss of America Corp. (“the Company”) is a public company listed on the Toronto Stock Exchange, incorporated and domiciled in Canada. The address of the Company’s registered office is 16441 Yonge Street, Newmarket, Ontario, Canada. The consolidated financial statements of the Company as at and for the year ended December 31, 2013 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 17).

IFRS (10) *Consolidated Financial Statements*

IFRS 10 (2011) introduces a new control model that focuses 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. Based on IFRS 10 (2011), there are no changes to the entities being consolidated.

List of Subsidiaries

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



AirBoss operates in two business segments, AirBoss Rubber Compounding and AirBoss Engineered Products, 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 calandered 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 sold in the US.

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 19, 2014.

(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 judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, 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 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 judgements 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 14 – income taxes

Note 15 – 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 14 – utilization of tax losses;

Note 17 – measurement of post-retirement benefits;

Note 11 – provisions; and

Note 16 – commitments and contingencies

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies have been applied consistently by Group entities.

A number of new standards, amendments to standards and interpretations became effective on January 1, 2013 and have been applied in preparing these consolidated financial statements. These include IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interest in Other Entities (2011), IFRS 13 Fair Value Measurement (2011), IAS 19 Employee Benefits (2011), IAS 28 Investments in Associates and IAS 1 Presentation of Financial Statements. The adoption of these standards and amendments did not have a material effect on the Company's financial results.

(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: trade and other receivables; cash and cash equivalents.

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.

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.

(ii) Non-derivative financial liabilities

All financial liabilities (including liabilities 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 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 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. 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 is included in intangible assets. At initial recognition, customer relationships is 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 calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

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. 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 of completion and selling expenses. Impairment charges are recorded against cost of sales.

(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.

(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 15% 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 judgements about future events. New information may become available that causes the Company to change its judgement 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.

(o) New standards and interpretations not yet adopted.

IFRS 9 *Financial Instruments* (2010), IFRS 9 *Financial Instruments* (2009)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. At this time, management cannot provide a reasonable estimate of the effect on the Company's financial position until a detailed review has been completed. The Group does not plan to adopt these standards early.

IFRIC 21 *Levies*

IFRIC 21 introduces requirement for the recognition of a liability when the entity has a present obligation as a result of a past event (known as obligation event). IFRIC 21 establishes the obligating event to recognize a liability as an event that results in payment of levy relating to the relevant legislation. The Group is currently reviewing its methodologies in determining liability obligations. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company intends to adopt these standards in its financial statements for the annual period beginning on January 1, 2014.

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. Purchase price allocation is not yet completed.

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 preacquisition period, and related tax effects.

Effect of this acquisition has resulted in maintaining Flexible's defined contribution plan and Flexible's multi-employer pension plan (Note 17).

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 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 $ 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. Provisional amounts have been recognized as the measurement period for the acquisition remains open until the valuation of identifiable assets and liabilities is confirmed.

(In thousands of US dollars)

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

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*	**2013**	2012
Trade receivables	**42,068**	28,315
Less: allowance for doubtful accounts	**(181)**	(99)
	41,887	28,216
Other receivables	**746**	1,388
	42,633	29,604

Impairment losses

The aging of trade receivables at the reporting date was:

	2013		2012	
December 31 *In thousands of US dollars*	**Gross**	**Impairment**	Gross	Impairment
Within terms	**21,097**	**-**	18,204	-
Past due 0-30 days	**17,115**	**-**	8,052	-
Past due 31-120 days	**3,856**	**(181)**	2,059	(99)
	42,068	**(181)**	28,315	(99)

The continuity of the allowance for doubtful accounts was:

In thousands of US dollars	**2013**	2012
Balance at January 1	**(99)**	(96)
Impairment loss recognized	**(287)**	(126)
Collected	**186**	-
Revise estimate/write-off	**19**	123
Balance at December 31	**(181)**	(99)

NOTE 6 INVENTORIES

December 31 *In thousands of US dollars*	**2013**	2012
Raw materials and consumables	**21,149**	22,859
Work in progress	**2,550**	3,136
Finished goods	**7,564**	5,030
Inventory in transit	**2,326**	2,876
Other inventory	**1,433**	865
	35,022	34,766
Provisions	**(1,102)**	(1,380)
	33,920	33,386

As inventory determined to be impaired in 2012 was liquidated during 2013, provisions were adjusted accordingly. The adjustment of provisions was recorded in cost of sales in the respective years as a recovery of $377 in 2013 and a charge of $484 in 2012.

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, 2012	12,496	37,141	983	672	51,292
Additions	1,711	731	52	4,214	6,708
Disposals	-	(741)	(1)	-	(742)
Transfers	341	3,216	-	(3,557)	-
Balance at December 31, 2012	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
Accumulated depreciation					
Balance at January 1, 2012	1,364	6,698	344	55	8,461
Depreciation for the period	749	4,359	176	-	5,284
Disposals	-	(509)	(1)	-	(510)
Transfers	-	55	-	(55)	-
Balance at December 31, 2012	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

Included in plant and equipment is spare parts inventory of $38 (2012: $99).

Carrying amounts

In thousands of US dollars	Land and buildings	Plant and equipment	Furniture and equipment	Under construction	Total
At December 31, 2012	12,435	29,744	515	1,329	44,023
At December 31, 2013	11,976	41,529	849	1,064	55,418

Depreciation expense of $5,446 (2012: $5,062) was charged to costs of sales, $298 (2012: $269) was charged to general and administrative expense and $114 (2012: $69) was charged to research and development expenses. Rental expense for equipment under operating lease of $314 (2012: $394) was included in the income statement.

Government assistance grants relating to capital assets were $26 in 2013 (2012: $234); property, plant and equipment were adjusted accordingly. A loss of $43 was recognized relating to the write-off of plant equipment and furniture and included in depreciation expense charged to cost of sales ($42) and general and administrative ($1) expenses. No proceeds were received. In 2012, proceeds on disposal of certain injection presses as part of the reorganization were $130; a loss of $116 was recognized relating to this disposal and included in depreciation expense charged to costs of sales.

NOTE 8 INTANGIBLE ASSETS

In thousands of US dollars	Customer Relationships	Goodwill	Product development	Software	Total
Cost					
Balance at January 1, 2012	-	6,833	91	1,630	8,554
Purchases	-	-	-	714	714
Disposals	-	-	(91)	(21)	(112)
Balance at December 31, 2012	-	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
Amortization and impairment losses					
Balance at January 1, 2012	-	-	91	622	713
Amortization for the period	-	-	-	383	383
Disposals	-	-	(91)	(7)	(98)
Balance at December 31, 2012	-	-	-	998	998
Amortization for the period	324	-	-	416	740
Balance at December 31, 2013	324	-	-	1,414	1,738
Carrying amounts					
At December 31, 2012	-	6,833	-	1,325	8,158
At December 31, 2013	15,676	16,898	-	1,413	33,987

Amortization expense of $740 (2012: $383) was charged to general and administrative expense. Remaining amortization for customer relationships is 9.8 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. As at December 31, 2013 and December 31, 2012, 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 13%
- Growth rate of 2% 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% (2012: 2%) for 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 and AEP industries and are based on both external sources and internal sources (historical data).

NOTE 9 OTHER INVESTMENTS

In thousands of US dollars	**2013**	2012
Non-current investments		
Balance at January 1	**116**	136
Business Acquisition (Note 4)	**313**	-
Purchases	**47**	-
Effect of movements in exchange rates	**(8)**	3
Impairment charge	**-**	(23)
Balance at December 31	**468**	116

Included in the business acquisition, was a 10% equity interest in a private company for $313. The impairment charge of nil (2012: $23) was included in other income.

Derivatives not meeting hedge accounting criteria:

There are no forward contracts outstanding as of December 31, 2013 or 2012.

NOTE 10 LOANS AND BORROWINGS

December 31 *In thousands of US dollars*	**2013**	2012
Non-current		
Term debt	**52,305**	8,599
Less: deferred financing	**(632)**	(35)
	51,673	8,564
Current		
Term debt	**5,440**	670
Other debt	**-**	102
	5,440	772

December 31 *In thousands of US dollars*	**2013**	2012
CAD $8.6 million (2012: $9.2 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	**8,044**	9,269
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	**4,701**	-
US $45 million term debt, bearing interest at LIBOR plus applicable margins from 150 to 250 basis points depending on EBITDA ratio, five year term, amortized by specific installments of principal plus interest payable quarterly and the balance repayable October 18, 2018.	**45,000**	-
Subtotal	**57,745**	9,269
Less principal due within one year	**(5,440)**	(670)
	52,305	8,599

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

During the year deferred financing fees of $637, in regards to the new credit agreement, were capitalized. The fees are being amortized over 5 years and $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 2013 on the term loans was $836 (2012: $613).

Other Debt:

December 31 *In thousands of US dollars*	**2013**	2012
Other debt	-	102

Other debt reflects the remaining principal and accrued interest relating to one promissory note taken back by the vendors of AirBoss Engineered Products Inc. (formerly Acton International Inc.) The note bears interest at the rate of 8% per annum, is secured by a collateral mortgage of $1.8 million (2008 - $1.8 million) on the assets of AirBoss Engineered Products Inc., ranks second to the bank and term lender and was repayable on April 20, 2004. The terms of the purchase agreement provided for a recovery of purchase price under certain conditions. During 2002, AEP exercised its right of offset against the vendors' note for the recovery of purchase price and environmental costs and suspended payments of principal and interest pending resolution of its claims. During 2006, AEP had settled $1.5 million of the purchase price (plus accrued interest) under the terms of the agreement. During 2007, AEP settled one of the promissory notes, which reduced the obligation a further $0.25 million. AEP has recorded the net obligation of $0.1 million after offsetting the recovery of purchase price and environmental costs pursuant to the agreement. During 2011, AEP was notified that the superior court rendered a judgement in its favour allowing the parties to offset their respective claims. AEP has been informed that an appeal was filed relating to the judge's decision to award AEP 100% of its claim for environmental cost 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.

Principal repayments on the term loan and other debt are as follows:

In thousands of US dollars	**Total**	**2014**	**2015**	**2016**	**2017**	**2018**
Term loan and other debt	57,745	5,440	12,232	5,938	5,938	28,197

The operating line consists of a US$25 million senior secured multi-currency revolver and a US$15 million senior secured revolving credit facility. $39.2 million of this facility is unused as at December 31, 2013 (2012: $35.2 million); no amounts were drawn against the facility in 2012.

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

The credit/security/letter 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 2013 on the demand loan was $217 (2012: $226).

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

December 31 *In thousands of US dollars*	**2013**	2012
Less than 1 year	**5,440**	772
1 to 5 years	**51,673**	8,564
	57,113	9,336

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

	Carrying amount		Fair value	
In thousands of US dollars	**2013**	2012	**2013**	2012
Term debt	**57,113**	9,336	**57,966**	9,648

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 5.17% (2012: 4.55 %) for fixed rate term loan and 2.67% for LIBOR loan.

The group has the following undrawn borrowing facility:

December 31 *In thousands of US dollars*	**2013**	2012
Floating rate:		
Expiring within 1 year	**-**	35,200
On demand	**39,200**	-

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

NOTE 11 PROVISIONS

In thousands of US dollars	Site restoration	Stock appreciation rights	Total
Balance at January 1, 2012	98	-	98
Provisions used during the year	-	-	-
Provisions reversed during the year	-	-	-
Foreign exchange	2	-	2
Balance at December 31, 2012	100	-	100
Provisions used during the year	**-**	**804**	**804**
Provisions reversed during the year	**-**	**-**	**-**
Foreign exchange	**(6)**	**-**	**(6)**
Balance at December 31, 2013	**94**	**804**	**898**

No legal provisions are recognized at December 31, 2013 and 2012.

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, 2013, 609,000 rights were outstanding with a reference price ranging between CAD $5.16 and CAD $5.25. During 2013, 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 $804 (2012: nil) relating to the SARS plan.

NOTE 12 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	**2013**	2012
January 1	**22,493**	23,330
Exercise of share options	**255**	-
Repurchase of common shares	**-**	(837)
Balance at December 31	**22,748**	22,493

Issuance of common shares

During 2013 651,500 options were exercised. In 2012, no options 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.

During 2013 the Company did not purchase for cancellation any of its outstanding common shares pursuant to the NCIB that was renewed May 17, 2013. In 2012, the Company purchased for cancellation 836,865 of its outstanding common shares pursuant to the NCIB for $3,887 at an average price of $4.64. As a result of this purchase, the Company recorded a reduction to share capital and retained earnings of $1,452 and $2,435 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:

In thousands of US dollars	**2013**	2012
Balance at January 1	**1,925**	1,581
Stock option expense	**477**	344
Exercise of stock options	**(667)**	-
Balance at December 31	**1,735**	1,925

Stock Options

The Company has reserved 2,274,812 (2012: 2,249,289) 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, 2013, are as follows:

	Options outstanding			**Options exercisable**	
Range of exercise price ($CAD)	**Quantity**	**Weighted average contract life**	**Weighted average exercise price ($CAD)**	**Quantity**	**Weighted average exercise ($CAD)**
5.00	120,000	1.25	5.00	90,000	5.00
5.01	440,000	1.00	5.01	330,000	5.01
5.27	122,500	1.67	5.27	88,500	5.27
6.35	650,000	4.67	6.35	-	6.35
7.19	100,000	2.25	7.19	50,000	7.19
7.77	50,000	4.92	7.70	-	7.70
	1,482,500			558,500	

Options granted and outstanding:

A summary of the status of the Company's stock option plan as of December 31, 2013 and 2012 and changes during the years then ended, is presented below:

	2013		2012	
	Quantity	**Weighted average exercise price ($CAD)**	Quantity	Weighted average exercise price ($CAD)
Outstanding beginning of year	**1,434,000**	**4.23**	1,434,000	$4.23
Granted	**700,000**	**6.45**	-	-
Exercised	**(651,500)**	**2.91**	-	-
Outstanding end of year	**1,482,500**	**5.86**	1,434,000	$4.23

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	**November 2013**	**August 2013**
Fair value at grant date	**$2.47**	**$2.98**
Share price at grant date	**6.35**	**7.70**
Exercise price	**6.35**	**7.77**
Expected volatility (weighted average volatility)	**47.5%**	**46.9%**
Option life (expected weighted average life)	**5 years**	**5 years**
Expected dividends	**1.26%**	**1.04%**
Risk-free interest rate (based on government bonds)	**1.92%**	**1.73%**

No share-based payment awards were granted during 2012.

The stock options issued vest as follows:

	Quantity
Currently vested	558,500
2014	374,000
2015	200,000
2016	175,000
2017	175,000
	1,482,500

Stock option expense

During the year, the Company recognized as employee costs $477 (2012: $344) 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 2013 and in 2012 as follows:

	2013		2012	
Shareholder of record at:	**$CAD**	**Date Paid**	$CAD	Date Paid
March 31	**0.05**	**April 3, 2013**	0.0375	April 19, 2012
June 30	**0.05**	**July 18, 2013**	0.05	July 19, 2012
September 30	**0.05**	**October 17, 2013**	0.05	October 18, 2012
December 31	**0.05**	**January 16, 2014**	0.05	January 17, 2013
	0.20		0.1875	

The dividend payable at December 31, 2013 was $1,069 (2012: $1,130).

NOTE 13 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*	**2013**	2012
Numerator for basic and diluted earnings per share:		
Net income	**6,351**	7,170
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	**22,711**	22,954
Dilution effect of stock options	**93**	213
Diluted weighted average number of shares outstanding	**22,804**	23,167
Net income per share:		
Basic	**0.28**	0.31
Diluted	**0.28**	0.31

At December 31, 2013, 800,000 options (2012: 796,000) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

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

NOTE 14 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*	**2013**	2012
Combined federal and provincial statutory income tax	**2,209**	2,375
Foreign tax differential	**(441)**	90
Income tax related to non-deductible expenses	**405**	88
Difference arising on filing and assessments	**(195)**	(5)
Other	**503**	(218)
Total expense	**2,481**	2,330
The components of the provision for income taxes are as follows:		
Current	**4,143**	2,318
Deferred	**(1,662)**	12
Total	**2,481**	2,330

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*	**2013**	2012
Deferred income tax assets:		
Non-capital income tax loss carry-forwards	**2,849**	1,118
Deferred income tax deductions relating to long-term liabilities	**716**	826
Research and development expenses deducted for accounting less than amount deducted for tax purposes	**73**	93
Stock appreciation rights	**201**	-
Financing fees	**99**	-
Alternative minimum tax	**97**	-
Capital assets	**56**	25
	4,091	2,062
Deferred income tax liabilities:		
Research and development expenses deducted for accounting in excess of tax purposes	**-**	(89)
Deferred income tax deductions relating to long-term liabilities	**(9)**	(10)
Capital assets	**(7,675)**	(7,187)
	(7,684)	(7,286)
Net deferred income tax liabilities	**(3,593)**	(5,224)

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 $7.4 million (2012: $3.3 million) available to offset deferred income taxes in the US and has recognized a related deferred income tax asset of $2.8 million (2012: $1.1 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 $25,689 (2012: $24,201).

NOTE 15 GOVERNMENT ASSISTANCE

During the year 2013, AEP recognized grants of $1,538 to support certain initiatives (2012: $814) which were offset against expenses. In addition, $108 (2012: $157) was recognized from the province of Quebec in respect of capital. Capital assets were adjusted accordingly.

During the year 2013, the Rubber Compounding division recognized $121 (2012: $36) to mainly support job creation which was offset against expenses.

Scientific research and investment tax credit of $927 were recognized in 2013 (2012: $369); R&D costs were adjusted accordingly. In addition, $110 (2012: $233) was recognized as a reduction to capital assets in respect of provincial tax credits.

NOTE 16 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
2014	310	1,271	1,581
2015	210	1,080	1,290
2016	146	1,050	1,196
2017	111	1,050	1,161
2018	34	1,050	1,084
Thereafter	-	838	838
Total	811	6,339	7,150

At December 31, 2013 and 2012, the Company had exercised all forward contracts and there were none outstanding.

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.

NOTE 17 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, 2013, the weighted average duration of the defined benefit obligation was 14 years (2012: 14.5 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 $40. This plan is unfunded as such there is no plan asset to be disclosed. At December 31, 2013, the weighted average duration of the defined benefit obligation was 10.7 years (2012: 10.7 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*	**2013**	2012
Statement of Financial Position obligations for:		
Executive Supplemental Plan	**2,330**	2,525
Other benefit plan	**489**	583
	2,819	3,108
Income statement charge for:		
Executive Supplemental Plan	**91**	129
Other benefit plan	**27**	32
	118	161
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	**-**	(85)
Financial assumptions	**(351)**	(752)
Demographic assumptions	**231**	173
Other benefit plan:		
Actuarial (gain)/loss arising from:		
Economic assumptions	**(17)**	5
Demographic assumptions	**(24)**	-
	(161)	(659)
Cumulative actuarial loss (gain) recognized in the statement of other comprehensive income (before tax)		
Executive Supplemental Plan	**(202)**	(82)
Other benefit plan	**274**	315
	72	233

December 31 *In thousands of US dollars*	Executive Supplemental Plan **2013**	 2012	Other benefit plan **2013**	 2012
Present value of unfunded obligation and Liability in the Statement of Financial Position	**2,330**	2,525	**489**	583
Movement in the defined benefit obligation is as follows:				
At January 1	**2,525**	2,992	**583**	581
Current service cost	**-**	-	**4**	3
Interest cost	**91**	129	**23**	29
Employer contribution	**-**	-	**(43)**	(48)
Actuarial (gain)/loss	**(120)**	(664)	**(41)**	5
Exchange differences	**(166)**	68	**(37)**	13
	2,330	2,525	**489**	583
December 31				
The amounts recognized in the income statement are as follows:				
Post-retirement benefits expense	**-**	-	**(39)**	(45)
Interest cost	**91**	129	**23**	29
Exchanges differences	**(166)**	68	**(37)**	13
	(75)	197	**(53)**	(3)

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 **2013**	 2012	Other benefit plan **2013**	 2012
The amount recognized in Other Comprehensive Income				
Opening balance	**82**	(582)	**(315)**	(310)
Gain/(loss) for the year on accrued benefit	**120**	664	**41**	(5)
Closing balance	**202**	82	**(274)**	(315)

December 31 *In thousands of US dollars*	Executive Supplemental Plan **2013**	 2012	Other benefit plan **2013**	 2012
The principal actuarial valuation assumptions used were as follows:				
Discount rate	**4.75%**	3.75%	**4.75%**	4.25%
Mortality	**CPM-14 Priv Gen CPM-A1 Age 65 or age at the valuation date, if greater**	UP94 Generational, Scale AA Age 65 or age at the valuation date, if greater	**CPM-RPP 2014 Private Sector Mortality Table-Draft July 2013 with 2D improvement scales**	UP94 dynamically projected, Scale AA
Retirement age:				
Percentage of members with spouses at retirement	**50%**	50%	**N/A**	N/A
EARSL	**3.5**	4.5	**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, 2013. 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, 2013**
In thousands of US dollars	
Discount rate	
4.50% (instead of 4.75%)	81
Mortality	
(instead of the preliminary tCPM-RPP2014 Priv Table with adjustment factors to account for the level of benefits and with generational projection using improvement scale CPM-A1)	(25)
Retirement age	
100% at age 64 years old (instead of 100% at 65 years old)	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, 2013**	December 31, 2012
Effect of an increase of 1%		
Post-employment benefit obligation	**(53)**	n/a
Aggregate of Service Cost + Interest Cost	**(3)**	n/a
Effect of a decrease in 1%		
Post-employment benefit obligation	**64**	n/a
Aggregate of Service Cost + Interest Cost	**4**	n/a
Mortality Sensitivity Analysis		
Effect of an increase of 10% on mortality rates		
Post-employment benefit obligation	**4**	n/a
Aggregate of Service Cost + Interest Cost	**0.4**	n/a
Effect of an decrease of 10% on mortality rates		
Post-employment benefit obligation	**(5)**	n/a
Aggregate of Service Cost + Interest Cost	**(0.5)**	n/a

Defined Contribution Plan

AirBoss's Flexible Products Co. maintains a simplified employee defined contribution pension plan covering substantially all U.S. employees not covered by collective bargaining agreements. The Group's contributions are discretionary and are not to exceed 15% of the total eligible compensation earned by plan participants during the year. For the period ended December 31, 2013, the expense for this plan was approximately $69.

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 $40 to the multi-employer pension plan. The unfunded vested benefit ratio was 65.42% at December 31, 2013.The Steel Workers Pension Trust is in a net deficit at December 31, 2013 and the Company's portion of the deficit is unknown. The financial position for this trust at December 31, 2013 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, 2014. The current agreement requires that the Group contributes $0.40 for each hour worked by eligible employees during the preceding wage month. Total estimated contribution to this plan for the next fiscal year is $250.

NOTE 18 SEGMENTED INFORMATION

The Group has two 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 automotive parts, protective wear and semi-finished rubber products.
- 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. 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 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		Unallocated Corporate Costs		Total	
In thousands of US dollars	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Segment revenue	**167,683**	199,578	**84,599**	62,529	**-**	-	**252,282**	262,107
Inter-segment revenue	**(12,417)**	(9,976)	**(3,540)**	(3,433)	**-**	-	**(15,957)**	(13,409)
External revenues	**155,266**	189,602	**81,059**	59,096	**-**	-	**236,325**	248,698
Reportable segment profit before income tax	**4,877**	7,566	**6,623**	4,331	**(2,668)**	(2,397)	**8,832**	9,500
Reportable segment assets	**71,084**	72,027	**104,231**	41,504	**10,457**	5,290	**185,772**	118,821
Reportable segment liabilities	**19,113**	15,943	**21,034**	7,692	**64,485**	16,199	**104,632**	39,834
Depreciation and amortization	**3,692**	3,391	**2,882**	2,336	**25**	56	**6,599**	5,783
Finance cost	**1,147**	533	**366**	353	**(317)**	133	**1,196**	1,019
Income tax expense	**1,764**	1,868	**1,837**	1,614	**(1,120)**	(1,152)	**2,481**	2,330
Capital expenditures	**4,004**	4,180	**1,375**	3,237	**76**	5	**5,455**	7,422

Geographical segments

The Rubber Compounding, AEP 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, 2013		December 31, 2012	
In thousands of US dollars	**Revenues**	**Non-current assets**	Revenues	Non-current assets
Canada	**64,830**	**42,327**	79,871	43,265
United States	**165,359**	**47,711**	161,763	9,032
Other countries	**6,136**	**-**	7,064	-
	236,325	**90,038**	248,698	52,297

Major customers

Revenues from one customer represent approximately 15% (2012: 19%) of the Group's total revenues. Five customers represented 39% (2012: 43%) of the Company's total revenues.

Major Products

In thousands of US dollars	**2013**	2012
Rubber Compounding:		
Tolling	**5,041**	3,907
Mixing	**150,225**	185,695
	155,266	189,602
AEP:		
Industrial	**32,048**	35,499
Defense	**26,581**	23,597
Automotive	**22,430**	-
	81,059	59,096

NOTE 19 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 $175 (2012: $113).

During the year, the Company paid fees for the use of a facility in South Carolina of approximately $21 (2012: $18) to a company in which the Chairman is an officer.

In addition, AirBoss Flexible Products Co. paid rent to a company controlled by an employee of the Company to utilize its facilities. Rent paid to this related party for the period 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 paid or payable to key management for employee services is shown below:

December 31 *In thousands of US dollars*	**2013**	2012
Salaries and other short term benefits	**1,582**	1,581
Pension/Post-employment benefits	**91**	129
Stock option and stock appreciation rights expense	**1,283**	344
	2,956	2,054

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 27.5% of the outstanding common shares.

NOTE 20 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 and synthetic and natural rubber used in the production of its products, the price and availability of which are subject to fluctuations from such factors as weather, exchange rates 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 Increase (decrease)	Earnings before tax **2013**	 2012
Natural and synthetic rubber	**(3.9)**	(5.1)
Carbon black	**(1.5)**	(1.6)

Most of the Company's products are sold at prices denominated in US dollars or based on prevailing US dollar prices; most of the raw material purchases are denominated in US dollars and a significant portion of its operational costs and expenses are incurred in Canadian dollars. Therefore, an increase in the value of the 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 Increase (decrease)	Earnings before tax **2013**	 2012
Sales (1)	**(3.5)**	(4.0)
Purchases (2)	**6.2**	5.2

(1) Based upon Canadian dollar-denominated sales in 2013
(2) Based upon combined 2013 Canadian purchases and expenses

Interest Rate Risk

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

At the end of 2013, Canadian dollar borrowings are on a fixed rate basis (2012: fixed rate basis). The US dollar borrowings are on a variable rate basis (2012: fixed rate basis). The Company has no 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. The Company has not entered into interest rate swap derivatives at year end. However, contracts were entered into during 2014 to fix interest rate on $22.5 million of debt.

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

December 31 *In thousands of US dollars*	**2013**	2012
Fixed rate instruments		
Financial assets	**-**	-
Financial liabilities	**(12,745)**	(9,371)
Variable rate instruments		
Financial assets	**-**	-
Financial liabilities	**(44,265)**	(105)
Total	**(57,010)**	(9,476)

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
2013		
Variable rate instruments	(79)	86
2012		
Variable rate instruments	(40)	40

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

Credit Risk

The Company held cash and cash equivalents of $16,904 at December 31, 2013 (2012: $1,247), 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 15% (2012: 19%) of the Group's total revenues. Five customers represented 39% (2012: 43%) of the Company's total revenues in 2013 and 2012 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 $21 million and unused facility of $39.2 million (2012: cash of $6.3 million and no net amount drawn against the facility).

Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, demand loan, accounts payable and accrued liabilities, term loan and other debt. The fair values of cash and cash equivalents, accounts receivable, demand loan, accounts payable and accrued liabilities, as recorded in the consolidated balance sheets approximate their carrying amounts due to the short-term maturities of these instruments. The fair value of the long term loan has been discounted using current market interest rates. The fair value of the other debt is not readily determinable.

The carrying value and fair value are as follows:

December 31, 2013	**Financial**	**Loans and**	**Other financial**		
	Instruments	**Receivables**	**liabilities**	**Total**	
	designated	**(amortized**	**(amortized**	**carry**	**Total fair**
In thousands of US dollars	**at fair value**	**at cost)**	**at cost)**	**amount**	**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

December 31, 2012	**Financial**	**Loans and**	**Other financial**		
	Instruments	**Receivables**	**liabilities**	**Total**	
	designated	**(amortized**	**(amortized**	**carry**	**Total fair**
In thousands of US dollars	**at fair value**	**at cost)**	**at cost)**	**amount**	**value**
Cash and cash equivalents	1,247	-	-	1,247	1,247
Trade and other accounts receivable	-	29,604	-	29,604	29,604
Total financial assets	1,247	29,604	-	30,851	30,851
Demand loan	-	-	1,780	1,780	1,780
Long term loan	-	-	9,336	9,336	9,648
Other liabilities	-	-	30,498	30,498	30,498
Total financial liabilities	-	-	41,614	41,614	41,926

The fair value of long term loan has been based on market interest rate (level 2) in 2012 and 2013. The Group has not disclosed the fair values for financial instruments (Trade and other accounts receivable and other liabilities) as thier carrying amounts approximate their fair values (level 3). There were no reclassifications between classes of financial assets and financial liabilities in 2012 and 2013. There were no transfers between levels of the fair value hierarchy in 2012 and 2013.

Capital Management

The Company has defined its capital as follows:

December 31 *In thousands of US dollars*	**2013**	2012
Cash and cash equivalents	**(16,904)**	(1,247)
Term loan and other debt	**57,113**	9,336
Net debt	**40,209**	8,089
Shareholders' equity	**81,140**	78,987
	121,349	87,076

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

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

The Company has established a committed revolving line of credit that provides liquidity and flexibility when capital markets are restricted. Directors and Officers currently own 27.5% or 6,260,178 shares of the Company. Each Director is required to hold shares for value equal to 3 years retainer fees in order to align objectives with that of shareholders. There is no plan to extend availability of options beyond key management and senior employees. The Company implemented a 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 2014.

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

NOTE 21 SUBSEQUENT EVENTS

As of January 6, 2014, the Company appointed Mr. Timothy Toppen as President. In addition to base salary and an annual bonus, the Company intends to implement a stock based compensation plan that will entitle the President to 100,000 shares in three years time.

Subsequent to year end, the Company has agreed to invest $550 in a company for which the President is the Chairman. The terms of the investment are under negotiation, but the investment is expected to be in the form of a promissory note convertible to an equity interest.