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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of AirBoss of America Corp. ("AirBoss" or the "Company") has been prepared as of March 19, 2014 and should be read in conjunction with the Consolidated Financial Statements and Notes for the year ended December 31, 2013 prepared in accordance with *International Financial Reporting Standards ("IFRS")*. All dollar amounts are shown in thousands of US dollars, except per share amounts, unless otherwise specified. Additional information regarding the Company, including its Annual Information Form, can be found on SEDAR at **www.sedar.com** and on the Company's website at **www.airbossofamerica.com**.

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

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

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

OVERALL PERFORMANCE

During 2013, management continued to enhance shareholder value returning excess cash to shareholders through dividends. We made strategic decisions, such as to acquire Flexible-Products Co. ("Flexible"), providing significant future growth opportunities. We invested in product development, whether it was for the next generation CBRN protective wear, compounds or further finished rubber products. Gross margins increased! We rewarded executives who provided superior returns to the business – bonus, stock options and share appreciation rights expensed were $0.8 million. We are a team of prudent managers, well-disciplined in its capital allocation/acquisition strategies, and the market is rewarding you through a significant increase in share price (58% to the end of 2013, 73% to March 7, 2014).

The transaction costs of $2.0 million are required to be expensed in the current year's results. We added leverage to the balance sheet, by refinancing the business using a syndication, to support future acquisitions that are accretive to earnings. We replaced assets costing $5.0 million that no longer supported value creation.

Mining, defense, and tire tolling resulted in lower volumes and sales dollars however, efforts to expand in new industrial segments, geographic regions and higher-value polymers stabilized the results and are expected to improve during 2014, particularly when combined with productivity, purchasing, and equipment utilization initiatives.

Operational Highlights

- Acquired Flexible Products, an injection molding business serving the automotive segment, contributing $1.1 million of EBIT to our AirBoss Engineered Products Segment
- Gross margin increases from 10.5% to 12.1%
- Paid dividends of CAD $0.20 per share
- Acquisition costs expensed $2.0 million
- Stock appreciation rights expense of $0.8 million
- Compounding impacted by weakness in Coal and Defense

Selected Financial Information

Years ended December 31	**2013**	2012	2011
Financial results:			
Net sales	**236,325**	248,698	282,520
Net income	**6,351**	7,170	13,004
Net income per share			
– Basic	**0.28**	0.31	0.55
– Diluted	**0.28**	0.31	0.54
EBITDA (non-IFRS financial measure)	**16,627**	16,302	25,571
Net cash provided by operating activities	**32,025**	10,855	16,790
Dividends declared per share	**0.20**	0.1875	0.1425
Capital expenditures	**5,455**	7,422	5,280
Financial position:			
Total assets	**185,772**	118,821	126,575
Term loan and other debt	**57,113**	9,336	9,774
Shareholders' equity	**81,140**	78,987	79,179
Outstanding shares	**22,748,116**	22,492,885	23,329,750
**22,748,116 at March 19, 2014*			

Non-IFRS Financial Measure

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

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

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

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

A reconciliation of this measure is presented below:

	2013	2012
EBITDA:		
Net Income	**6,351**	7,170
Finance costs	**1,196**	1,019
Depreciation and amortization of intangible assets	**6,599**	5,783
Income tax expense	**2,481**	2,330
EBITDA	**16,627**	16,302

RESULTS OF OPERATIONS – 2013 compared to 2012

NET SALES

Net Sales decreased by 5% in 2013 primarily from lower raw material costs impacting pricing and lower rubber compounding volumes offset by the acquisition of Flexible.

		Rubber Compounding	AEP	Total
Net Sales	**2013**	**155,266**	**81,059**	**236,325**
	2012	189,602	59,096	248,698
Increase (decrease) $		(34,336)	21,963	(12,373)
Increase (decrease) %		(18.1)	37.2	(5.0)

Rubber Compounding

Sales volume, expressed in pounds shipped, declined by 6.7%. Belting, mining and defense accounted for a decline of 9.1% of total volumes. Tire tolling and retreading volumes increased over 2012. Sales dollars decreased by $34,336; $19,194 on lower volume and $15,142 from raw material cost decreases and changes in product mix.

The belting market is not expected to improve in 2014. Q1 results are expected to remain soft with improvements expected in Q2 as shipments are made to new accounts.

AirBoss Engineered Products

Automotive product sales, through Flexible recorded sales of $22,430 since the acquisition date of October 18, 2013. Defense and Industrial product sales were $26,581 and $32,048 respectively, and decreased by $467 compared to the prior year.

Industrial product sales decreased $3,451 of which $1,904 was due to a reduction in volume, particularly certain products related to defense and retreading, and $1,547 from lower raw material content and costing.

Sales of defense product sales increased by $2,984 primarily as a result of $11,107 higher sales of CBRN overshoes against the contract awarded last year and $5,277 lower glove sales as no orders were granted since 2012. Sales of other products declined $2,578.

RESULTS OF OPERATIONS – 2013 compared to 2012 (continued)

GROSS MARGIN

Gross margin for the year ended December 31, 2013 was $28,706 (2012: $26,061), an increase of $2,645 from 2012. This was primarily attributable to higher volumes of automotive and defense products.

		Rubber Compounding	AEP	Total
Gross Margin	**2013**	**14,271**	**14,435**	**28,706**
	2012	15,647	10,414	26,061
Increase (decrease) $		(1,376)	4,021	2,645
% of net sales	**2013**	**9.2**	**17.8**	**12.1**
	2012	8.3	17.6	10.5

Rubber Compounding

Gross margin for Rubber Compounding decreased by $1,376 in the year compared to 2012 from lower sales volumes. Spread, the difference between the unit selling price and raw material cost, was consistent year over year, suggesting all raw material cost savings were returned to the customer in pricing. Holding spread in a declining raw material cost market will improve margin percentages. The lower volumes, however, created inefficiencies from lower fixed cost utilization, tempering the margin percentages. Direct labour costs decreased where possible based on lower volumes. Labour retention grants and a WSIB recovery helped defray costs by $182.

Growth, purchasing, and equipment optimization initiatives are planned to help transform this business and generate the higher margins expected.

AirBoss Engineered Products

Gross margin for AirBoss Engineered Products increased by $4,021 compared to 2012. This was primarily due to sales of automotive products of $2,451 and of this, $1,324 was primarily attributable to higher sales of CBRN overshoes and its contribution to production efficiencies. The balance represented charges incurred in the second quarter of 2012 for the closure of the Kitchener injection molding ($140) and costs to consolidate injection molding operations in Quebec and Vermont ($253) that were not repeated in 2013.

Automotive margins were impacted by the purchase price allocation to inventory on acquisition charged to operations as the inventory was consumed.

OPERATING EXPENSES

Operating expenses increased for the year by $3,136.

This includes transaction costs of $2 million, operating expenses of Flexible since the acquisition of $1,672, stock compensation of $777 and increased investment in R&D $350. This was offset by higher exchange gains of $920 and a gain on settlement of a lawsuit of $389.

		Rubber Compounding	AEP	Unallocated Corporate Costs	Total
Operating Expenses	**2013**	**8,248**	**7,446**	**2,984**	**18,678**
	2012	7,548	5,730	2,264	15,542
Increase (decrease) $		700	1,716	720	3,136
% of net sales	**2013**	**5.3**	**9.2**	**N/A**	**7.9**
	2012	4.0	9.7	N/A	6.2

Rubber Compounding

For the year ended December 31, 2013 Rubber Compounding expenses increased by $700. Other administrative cost increases included transaction costs of $1,138 to purchase Flexible Products Co., offset by an increase in bad debt recoveries of $175. Research and development tax credits recognized in the year, which are applied as a reduction of operating expenses, increased by $339. Foreign exchange transactions resulted in a year-over-year loss of $137.

AirBoss Engineered Products

For the year ended December 31, 2013 AEP's expenses increased $1,716 of which $1,672 were related to Flexible since the acquisition.

Research and development initiatives to support Defense and Industrial Products increased expenses by $1,214 from new hires and additional outsourced support for certain technical work. In addition there was an increase in direct government incentives of $649 and higher research and development tax credits of $325.

Foreign exchange transactions resulted in a year-over-year gain of $115.

RESULTS OF OPERATIONS – 2013 compared to 2012 (continued)

Unallocated Corporate Costs

Unallocated corporate costs increased $720. Professional fees and travel relating to acquisition recorded in head office were $957. Stock compensation, primarily from share appreciation rights, increased by $777. Rent, charged for the corporate office space increased by $75. During the second quarter of 2013, the Company reversed the residual amounts owing to the defendants of a claim and recorded a recovery of $389 in other income. Foreign exchange gains were $576 in 2013 compared to a loss of $366 in 2012.

FINANCE COST

		Rubber Compounding	AEP	Corporate Costs	Total
Finance cost	**2013**	**1,146**	**366**	**(316)**	**1,196**
	2012	533	353	133	1,019
Increase (decrease) $		613	13	(449)	177
% of net sales	**2013**	**0.7**	**0.5**	**N/A**	**0.5**
	2012	0.3	0.6	N/A	0.4

Finance costs in 2013 were $1,196 (2012: $1,019) for the year and were impacted by higher debts levels and financing of the acquisition in the fourth quarter offset by lower borrowing levels during the first 9 months of the year.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $2,481 (2012: $2,330) or an effective income tax rate for the year of 28.20% (24.5% in 2012). The statutory rate in Canada in 2013 was 25%.

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

	Tax expense		Rate	
	2013	2012	**2013**	2012
Expected AirBoss of America Corp. statutory rate	**2,209**	2,375	**25.0%**	25.0%
Foreign rate differential	**(441)**	90	**(6.54%)**	1.0%
Effect of permanent differences	**405**	88	**5.03%**	0.9%
Filing differences	**(195)**	(5)	**(2.29%)**	(0.1%)
Other	**503**	(218)	**7.00%**	2.3%
Actual tax	**2,481**	2,330	**28.20%**	24.5%

NET INCOME AND EARNINGS PER SHARE

Net income in 2013 amounted to $6,351 compared to $7,170 in 2012 primarily attributable to transaction costs exceeding the contribution of Flexible since the acquisition. The basic and fully diluted net earnings per share were $0.28 (2012-$0.31) and $0.28 (2012-$0.31) based on basic and fully diluted shares outstanding of 22,711,106 (2012-22,954,394) and 22,803,692 (2012-23,167,475) respectively.

QUARTERLY INFORMATION

			Net Income (loss) per share	
Quarter Ended	Net Sales	Net Income (loss)	Basic	Diluted
2013				
December 31, 2013	70,267	(779)	(0.03)	(0.03)
September 30, 2013	52,040	2,024	0.09	0.09
June 30, 2013	59,659	3,060	0.14	0.13
March 31, 2013	54,359	2,046	0.09	0.09
2012				
December 31, 2012	54,114	1,755	0.08	0.08
September 30, 2012	57,901	1,507	0.06	0.06
June 30, 2012	66,784	1,621	0.07	0.07
March 31, 2012	69,899	2,287	0.10	0.10

Items impacting comparability of quarters

- All quarters in 2012 were impacted by lower Defense sales from US budgetary constraints and by lower Rubber Compounding sales relating to economic weaknesses in energy generating sectors. Non-recurring charges of $721 were recorded in the quarter June, 2012.
- The fourth quarter of 2013 was impacted by transaction costs, increased stock compensation and offset by the contribution to earnings of Flexible.

RESULTS OF OPERATIONS – 2013 compared to 2012 (continued)

Fourth Quarter 2013

Net sales in the fourth quarter of 2013 increased by $16.1 million compared to 2012 due to the following factors:

- $22.4 million sales for automotive products due to the Flexible acquisition partially offset by $6.4 million lower sales of Rubber Compounding;
- $1.8 million higher sales of Industrial products offset by losses in Defense product sales.

Gross margin increased $1.7 million

- Rubber Compounding gross margin remained unchanged despite lower volumes;
- AEP margins increased related to higher sales volumes of automotive products.

Operating expenses increased by $4.0 million

- Transaction costs $2.0 million;
- Automotive products costs $1.7 million since the Flexible acquisition; and
- Higher stock compensation of $0.8 million.

Finance costs increased by $0.4 million from financing the acquisition of Flexible.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Despite lower operating profits and significant investments in R&D facilities and equipment refurbishment, the Company has increased dividends from CAD $0.1875 to CAD $0.20 per share and provided some leverage for the shareholders and acquired Flexible.

The Company expects to fund its 2014 operating cash requirements, including required working capital investments, capital expenditures and scheduled debt repayments from cash on hand, cash flow from operations and committed borrowing capacity. The operating facility provides financing up to $40 million (2012: CAD $35 million); $39.2 million of this facility is unused as at December 31, 2013; no amounts were drawn against the facility in 2012.

In the year ended December 31, 2013, $32,025 (2012: $10,855) of cash was provided by operations, $60,034 (2012: $7,292) was used for investing activities and $43,741 (2012: ($8,605)) was provided from (used in) financing activities. Cash and cash equivalents increased by $15,732 from $1,247 to $16,904 adjusted for the effect of exchange rate fluctuations on cash held.

Operating activities

The factors contributing to the reduction of cash generated from operating activities before net changes in working capital compared to 2012 include:

- Lower net income
- Net increase in unrealized foreign exchange gains of $1,499
- Higher depreciation and amortization of $889 offset by lower income of $1,063 primarily related to lower Rubber Compounding sales
- Recognition of a litigation settlement of $389

Cash provided by (used for) working capital was $17,498 (2012: ($5,544)) for the year ended December 31, 2013.

Inventory at Rubber Compounding decreased $5,886 reflecting lower requirements for recent sales volumes as well as lower days of inventory on hand. Inventory of Defense products decreased $2,090; approximately $1 million represented orders planned for January but were required and shipped in the fourth quarter of 2013.

Accounts Receivable decreased $7,581 of which, $2,768 reflected lower Rubber Compounding sales, $4,065 improved aging of Automotive products and the balance is a result of lower sales of Defense products.

Prepaid expenses increased $764 reflecting insurance renewals and other items at Flexible since the acquisition.

Accounts payable increased $3,296 primarily at Rubber Compounding due to timing of payments.

Income tax paid net of refunds was $1,333.

The Company paid interest of $686 during the year.

Investing Activities

Acquisition of subsidiary

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

Property, Plant and Equipment

In 2013, Rubber Compounding invested $1,513 in North Carolina's equipment utilization improvement projects and $61 towards a lab in the Wake Forest sales office. In Kitchener, $475 was invested in renovations and $1,509 to replace manufacturing equipment.

AEP invested $1,330 in property, plant and equipment. Of this, $573 was invested to replace industrial products machinery and equipment and $292 mainly to support growth, health and safety. AirBoss-Defense invested $292 for its Bromont R&D facility, $12 to replace equipment and $47 support growth. Flexible invested $114 to replace mainly machinery and equipment.

Intangible assets

The Company invested $504 (2012: $714) in software to support customer requirements, management, costing, maintenance and ancillary systems.

Other investments including derivatives

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

Financing activities

On October 18, 2013, concurrent with the acquisition of all the outstanding shares of Flexible Products Co., AirBoss entered into a syndicated debt facility led by its existing banker to refinance the business. The new facility is comprised of a US$25 million senior secured multi-currency revolver, a US$15 million senior secured revolving credit facility, a US$45 million senior secured term loan, a C$8.7 million fixed rate term loan and a C$5 million fixed rate term loan. Proceeds of the credit facilities were used to refinance all existing loans of the Company, for the acquisition of Flexible Products and associated transaction costs, and for general corporate purposes. $39.2 million of this facility is unused as at December 31, 2013; 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.

During the year 2013, the required principal repayments of $649 (2012: $668) were made pursuant to the loan agreement.

The Company paid dividends of $4,419 during 2013 (2012: $4,050). During 2012, the Company purchased shares for cancellation under a normal course issuer bid for $3,887; none were repurchased in 2013.

Commitments and contractual obligations

The Company's contractual obligations as at December 31, 2013 are summarized below:

	Payments Due In						
	2014	2015	2016	2017	2018	Thereafter	Total
Term loan and other debt	5,440	12,232	5,938	5,938	28,197	-	57,745
Operating leases	1,581	1,290	1,196	1,161	1,084	838	7,150
Purchase obligations	2,627	-	-	-	-	-	2,627
Total	9,648	13,522	7,134	7,099	29,281	838	67,522

The Company has inventory purchase commitments at the end of 2013 for its AEP and Rubber Compounding business segments of $1 million and $1.6 million (2012: $1 million and $2.6 million) respectively.

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.

Dividends

A quarterly dividend of $0.05 per share was declared on November 13, 2013 and paid January 16, 2014. Total dividends declared during 2013 were $0.20 per common share compared to $0.1875 per common share in 2012.

Outstanding shares

As at March 19, 2014 the Company had 22,748,116 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

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

The Company's executive compensation plan consists of base salary, performance bonuses, and long-term compensation including stock options, stock appreciation rights and retirement benefits.

Key management and directors own 27.5% of the outstanding common shares.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2014 and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Company are set out below. The Group does not plan to adopt these standards early.

(a) 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 January 1, 2015 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.

(b) 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.

CRITICAL ACCOUNTING ESTIMATES

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

Critical Accounting Policies

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

Valuation of Accounts receivable

No material bad debt provisions were required in 2013 and 2012.

Valuation of inventory

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

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

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

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

At December 31, 2013, a reserve for impaired inventory in Rubber Compounding represents $500 (2012: $814).

AEP maintains a provision of $602 (2012: $567) related to certain styles and sizes of protective wear and automotive products in its ending inventory.

Valuation of Goodwill

The Company reviews and evaluates our goodwill for impairment when an indicator of impairment exists in the associated cash generating units, but at least on an annual basis. In determining whether impairment has occurred in one of the Company's cash generating units, management compares the cash generating unit's carrying value to its recoverable amount based on value in use. Value in use was determined by the future cash flows generated from the continuing use of the unit. The calculations are most sensitive to the discount rate and growth rate. Determination of growth rate is based on a number of assumptions arising from the most current financial performance of each cash generating unit, the upcoming annual budget for each reporting unit and the historical variability of earnings. Other factors, such as any foreign exchange volatility and volatility in world markets for rubber and carbon black can also materially alter our expectations. Accordingly, management's judgement is required to determine whether these factors at any one point in time and in light of business initiatives, suggest a major change, positive or negative, to the prospects of the business and, therefore, to the valuation of goodwill. No impairment charge was required in 2013 or 2012.

Other Long-lived Assets

The Company reviews and evaluates long-lived assets for impairment when events or changes in economic and other circumstances indicate that the carrying value of such assets may not be fully recoverable. The net recoverable value of an asset, or cash generating unit, is calculated as the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. Future net cash flows are developed using assumptions that reflect the planned course of action for an asset given management's best estimate of the most probable set of economic conditions. Inherent in these assumptions are significant risks and uncertainties. In the view of management, there are no indicators of impairment based on assumptions which they believe to be reasonable and no impairment charge was recorded in 2013 and 2012.

Accounting for Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the Consolidated Financial Statements. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and future tax liabilities and assets for the future tax consequences of events that have been recognized in the Consolidated Financial Statements or tax returns. In determining both the current and deferred components of income taxes, the Company interprets tax legislation in a variety of jurisdictions, as well as makes assumptions about the expected timing of the reversal of deferred tax assets and liabilities and recognition of deferred tax assets is based on a "more likely than not" criteria. If its interpretations differ from those of tax authorities or if the timing of reversals is not as anticipated, the provision or relief for income taxes could increase or decrease in future periods. Additional information regarding our accounting for income taxes is contained in Note 13 to the Consolidated Financial Statements. Deferred tax assets have been recorded relating to loss carry-forward amounts as management believes it is more likely than not that these will be used before expiration.

Government Assistance

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

RISK FACTORS

Impact of Economic Cycle

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

Dependence on Key Customers and Contracts

From time to time, a significant portion of the Company's sales for a given period may be represented by a small number of customers. One customer represents 15% (2012 –19%) of total sales. Five customers represented 39% of sales in 2013 (2012 – 43%). The loss of any such customers or the delay or cancellation of any orders under certain high-volume contracts could have a significant impact on the Company.

Raw Materials and Inventory

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

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

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

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

$Millions	Earnings before tax	
Increase (decrease)	**2013**	2012
Natural and synthetic rubber	**(3.9)**	(5.1)
Carbon black	**(1.5)**	(1.6)
	(5.4)	(6.7)

Weather

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

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

Competition

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

Currency Exposure

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

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

$Millions	Earnings before tax	
Increase (decrease)	**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.

Environmental

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

During 2008, the Company implemented measures to remediate the cause of an odour complaint in its Kitchener facility and monitor levels through a program of odour sampling. Based upon its efforts to date and investigations conducted by qualified external environmental professionals, the Company believes that no significant environmental exposure exists and that the costs to remediate the areas of ongoing concern will not significantly impact the financial resources of the Company. The Company has secured liability insurance coverage for environmental issues which the Company believes to be appropriate for the nature of its operations.

Product Liability and Warranty Claims

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

Capacity and Equipment

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

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

The Company has also made investment in capacity and efficiency in its Acton operations. In recent years, the Company purchased molds and injection equipment and established a production facility in Vermont to enhance its presence in protective products, such as CBRN protective gloves, defense footwear and gas masks.

The recent acquisition of Flexible increased the number of rubber injection molding presses; continued growth will use up any existing excess capacity.

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

LITIGATION

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

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

DISCLOSURE CONTROLS AND PROCEDURES

In accordance with the provisions of National Instrument 52-109 – Certification of Annual and Interim Filings, management, including the CEO and CFO, have limited the scope of their design of the Company's disclosure controls and internal controls over financial reporting to exclude such controls, policies and procedures of AirBoss Flexible Products Co., a business that the issuer acquired not more than 365 days before the issuer's financial year end. This scope limitation is based on time required to assess Flexible's disclosure controls and procedures, and internal controls over financial reporting in a manner consistent with the Company's other operations. Summary financial information regarding Flexible is as follows:

Summary financial information of Flexible as at December 31, 2013:

- Current assets of $30,252
- Non-current assets of $38,302
- Current liabilities of $12,630
- Non-current liabilities of $230

Summary financial information of Flexible for the 74 days ended December 31, 2013:

- Net Sales of $22,430
- Profit of $516

Commitments and contingencies:

In thousands of US dollars	**2014**	**2015**	**2016**	**2017**	**2018**	**Thereafter**	**Total**
Equipment	19	19	9	3	1	-	51
Premises	1,050	1,050	1,050	1,050	1,050	838	6,088
Total	1,069	1,069	1,059	1,053	1,051	838	6,139

As of the end of the fiscal year of the Company, an evaluation was carried out under the supervision of and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures of the other operations not subject to the scope limitation. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as of December 31, 2013, the end of the period covered by management's discussion and analysis, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by officers within those entities.

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has designed internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with IFRS in its consolidated financial statements of the other operations not subject to the scope limitation. The CEO/Chairman and the CFO have supervised management in the evaluation of the design and effectiveness of the Company's internal controls over financial reporting as at December 31, 2013 for the operations not subject to the scope limitation and believe the design and effectiveness of the internal controls to be sufficient to provide such reasonable assurance.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent period, there have been no changes in the Company's existing policies and procedures and other processes that comprise its internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Management has not yet assessed Flexible's internal controls over financial reporting.

OUTLOOK

Rubber Compounding sales will continue to be negatively impacted in 2014 due to weakness in the mining market, however, tire, automotive and other markets are showing signs of resistance. Defense Product sales are expected to decrease additionally due to US DoD budget constraints.

As we enter 2014, we have established focus areas to drive AirBoss' performance initiatives on both the cost and revenue side. Our goal is to improve our operating margins through more efficient business processes, leveraging manufacturing resources and strategic growth.

Management's Responsibility for Financial Reporting

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

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

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

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

KPMG LLP, the Company's external auditors, who are appointed by the shareholders, audited the consolidated financial statements as of and for the years ended December 31, 2013 and 2012 in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. KPMG LLP has full and free access to the Audit Committee.

March 19, 2014

P.Gren Schoch
Chairman and Chief Executive Officer

Wendy Ford
CFO

Independent Auditors' Report

To the Shareholders of AirBoss of America Corp.

We have audited the accompanying consolidated financial statements of AirBoss of America Corp., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly in all material respects, the consolidated financial position of AirBoss of America Corp. as at December 31, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada,
March 19, 2014