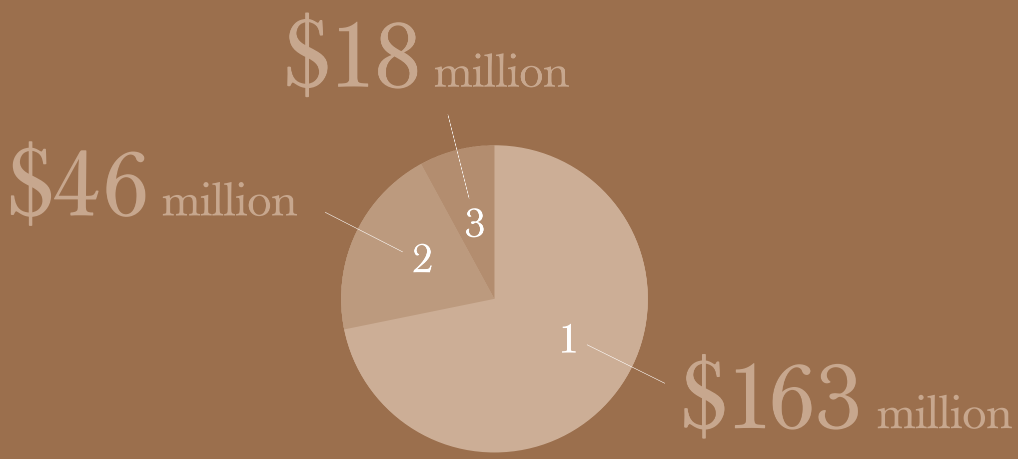
From chemistry, to compound, to application

AirBoss of America Corp. 2007 Annual Report

AirBoss of America Corp. 2007 Revenues:



1. Rubber Compounding: Revenue $163 million - 72%
2. Defense and Industrial Products: Revenue $46 million - 20%
3. Railway Products: Revenue $18 million - 8%

Contents

‘07

Chemical Biological Radiological and Nuclear protective wear was the AirBoss of America sales growth story of 2007. It’s a story that goes deep; right down to the chemistry of the rubber compounds used to produce them. AirBoss-Defense products are designed to safeguard lives – the lives of people who put their own on the line every day. AirBoss problem-solving technology and compound development resources went into a diversity of products for a wide range of customers served in 2007... and for those we look forward to serving as we continue to grow our business.

The story behind the story

It begins with what AirBoss of America Corp. products are made of: proprietary custom rubber compounds developed in our labs. It continues with how they are made: whether in small quantities or millions of pounds.

	What they were made of:	How they were made:
AirBoss-Defense	Highly specialized CBRN-resistant compounds created and tested in our labs are the secret behind the ability of AirBoss-Defense products to protect wearers from major toxins.	Whether with highly automated injection moulding or hand crafted precision all AirBoss-Defense protective products are individually tested to ensure the safety of the user.
AirBoss Custom Compounding	Highly diversified rubber compounds in thousands of custom recipes to answer the specific needs of our customers in a wide variety of demanding applications.	Using state-of-the-art highly automated large scale mixing equipment ARC produced millions of pounds of consistent high quality rubber compounds.

‘07

What that meant to AirBoss in 2007

This is the expertise that AirBoss brought to the table for all its customers in 2007: the unique ability to deliver both consistent quality over huge volumes for the major customer as well as the ability to provide customized development expertise for products in a range of industries.

Photo: Inspection of CBRN Gas Mask eyepiece.

From chemistry,

Photo: Toxic chemical penetration of new compounds tested in laboratory.

‘07

AirBoss-Defense Products are designed at their core to ensure human safety in extreme conditions. It’s a responsibility we take seriously – because someone’s life depends on it.

The year marked a volume breakthrough of some of AirBoss of America’s most specialized products: CBRN protective boots for defense and first-responder markets ranging from soldiers on the front line to first-responders such as firefighters and EMS professionals. This surge in demand which represented a 46% increase in sales in 2007 over the prior year continues. In fact, orders and sales received by February 2008 already equaled sales completed in all of 2007.

“CBRN” stands for chemical, biological, radiological and nuclear toxins. In product performance in the field, quality and in market share, AirBoss is the recognized industry leader. Our CBRN overboots have been tested to provide protection lasting twice as long under field conditions while allowing decontamination upon exiting contaminated areas.

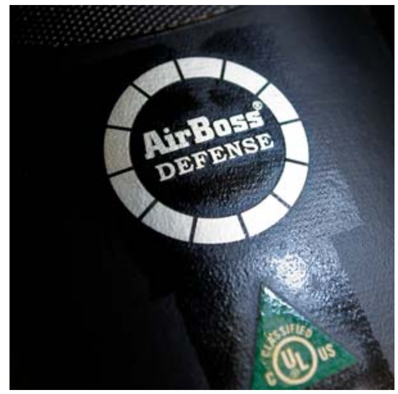
For the first-responder market in North America, we successfully launched the BOSS, the first CBRN firefighter boot that delivers comfort and fit, and mirrors the military boot in protection. In 2008, AirBoss looks to expand the market further into Europe.

Added-value products such as these offer higher-margin opportunities for the company. We continue to invest in leading-edge safety testing equipment, and are implementing production enhancements to improve products and production efficiences. For example, we are field testing next-generation technologies to improve product performance while increasing ergonomics.

Product innovation often allows us to cross-pollinate ideas in different markets and applications. For example wear performance improvements in compounds developed for our off-road tires may also enhance performance in other applications such as conveyor belting and rubber tracks for recreational vehicles.

to compound,

‘07



The uniqueness of a rubber compound begins with AirBoss chemists who develop and test more than 2,000 custom recipes for our customers.

The success behind products such as our CBRN overboot is grounded in great measure on our success as chemists and custom compounders. This division still generates 75% of our revenues and we expect it to continue to grow at a healthy rate going forward.

From natural rubber to synthetic polymer compounds, AirBoss of America Corp. not only produces a wide array of custom compounds, it has the capacity to do so at a rate of up to 250 million pounds a year – making us a leader in this industry.

2007 marked our first full year of successful operation at our new North Carolina facility. Heading into 2008, we continued our practice of continuous improvement with a new mixer upgrade at our Kitchener, Ontario facility. This policy supports our objective of ensuring that our facilities remain on the leading edge.

Rubber differs from plastic in that it is rarely uniform. Every tree is different; even formulations of synthetic rubber varies slightly between suppliers or lots. Producing consistency is the principal challenge, especially over the large quantities that AirBoss is able to produce.

Through the technology of our development and testing labs, as well as our production methodologies, we go to great lengths so that our customers can be sure that the AirBoss compounds they rely on will be consistently mixed – every square inch, time after time. In fact, our labs command sufficient respect, that customers have come to AirBoss rather than universities to develop next-generation compounds.

to application.

Photo: Molding of CBRN Glove.

‘07




For AirBoss, the bottom line has been our strength in diversity, from our own highly specialized engineered products to compounds used by third-party manufacturers.

From our plants in Ontario, North Carolina and Québec, AirBoss works with clients in sectors ranging from transportation, industrial, mining and agricultural equipment to carpeting.

In addition to our own continuous improvement of proprietary compounds such as our CBRN recipes, over the year, our customers have handed us every challenge from “can it cure 10 seconds faster?” to performance demands such as fireproofing or durability.

Unlike other rubber compounders, our diversity allows us to remain independent of the ups and downs of any individual industry. The compounds we produce for tire retreading are used mostly on off-road tires for the mining sector, for which AirBoss is the leading independent producer of rubber compounds. Other products for the mining industry for which we produce compounds include conveyor belting, ball mill liners and truck-bed liners.

Railway Products continues as a steady but important niche for the company. We have expanded our growth potential here into Central and South America, especially for mining applications. Our railway fastener for concrete ties also has rapid transit applications, and in this area we have completed a project in Salt Lake City.

Like our CBRN protective wear, the test of quality across all AirBoss divisions is human safety:

- whether for first responders or on the front lines
- flame retardant compounds for use underground
- toll mixing to extremely demanding specifications for high speed tires
- or in reducing derailments with quality fasteners for concrete railway ties

Sales for the year ended December 31, 2007 declined by 1.5% to $227 million compared to the previous year while Net Income decreased to $4.1 million from $6.5 in the previous year.

AirBoss-Defense

Sales of AirBoss-Defense products increased by 46% to $28.1 million compared to the previous year. This increase was attributed to increases in sales of Chemical Biological Radiological Nuclear ("CBRN") protective wear as well as rubber military repair items such as tank track pad pre-forms and strip rubber.

A further substantial increase in sales is anticipated for this Division in 2008. This increase will be as a result of increased sales to Military and First Response customers in Europe as well as the commencement of production of gas masks for the Canadian Department of Defense. Sales and orders received as at March 2008 are almost equal to the total sales in 2007 with further substantial orders expected.

AirBoss is the leader in the development and production of CBRN protective wear as a result of its investment in rubber technology. We intend to continue to invest in this core strength and have several projects underway to develop both next generation products for protective applications and the rubber compounds that provide the excellence in their function. The newest version of our CBRN overboot combines product enhancements with improved production methodologies which will reduce production costs. It is currently being field tested with a planned release date early in 2009.

The majority of these products continue to be sold in US dollars and foreign exchange is an increasingly important profitability factor. The unit production cost reductions to be realized due to the increase in volume currently being experienced will be important components to improving margins on these products to offset the effects of currency fluctuations.

AirBoss Rubber Compounding

The continuation of sales declines in the major and retread tire, automotive parts and construction markets in the US also impacted the markets for rubber compounds, particularly in the second half of the year. While AirBoss Rubber Compounding performed well in comparison, we were not unaffected. Sales declined by 4.7% and volumes by weight by 7.5% compared to the record year experienced in 2006. This decline should be short lived as sales volumes in the first two months of 2008 are already significantly improved over the end of 2007.

The sector showing the largest decline was tires, including pneumatic, original and retread, as well as solid tires. This product group declined by 5.6% compared to the previous year. The Company sees this market improving in 2008 as a result of increased business with a major tire manufacturer in the southern US and the recent imposition of anti-dumping duties in the US on OTR ("over the road") tires imported from China.

Rubber compounds sold for belting decreased by 3.6% compared to 2006 and this is expected to continue into the first half of 2008. Coal production in the US declined by 1.4% in 2007 although most producers are forecasting increases for 2008. There may be opportunities to increase volumes in the second half of 2008 in this sector.

Offsetting these declines were significant increases in the defense and mining sectors totaling approximately 3.5%. We expect both of these sectors to continue to increase in 2008. We are also anticipating additional volume from certain new industry sectors, such as flooring in 2008.

To Our Shareholders (cont’d)

The Company is pleased with the continued advancement it has made in production efficiencies and expects that with recent equipment improvements at three of our facilities this will continue in 2008. Major initiatives completed at the end of 2007 include a new mixer in our high volume business unit in Kitchener. Plans for 2008 include improving reliability during electrical surges in the south eastern US grid and natural rubber odor dissipation.

Raw material prices continue to reflect the volatility that exists in oil, chemicals and foreign currencies. Towards the end of 2007 major increases were experienced in carbon black which is a key rubber compound ingredient. We do not anticipate any material price reductions in the first half of 2008 and expect large increases in natural rubber and most of the synthetic rubbers.

Outlook

Sales volumes should increase significantly in both our Rubber Compounding and Defense divisions in 2008. AirBoss-Defense already had orders in hand by mid-February equal to the total 2007 sales.

The optimism in rubber compounding is based upon increased activity levels and the addition of new customers in the first two months of 2008. An increased level of activity in product development has also been experienced which usually precedes an increase in sales. These improvements are a result of penetration into new markets in 2007 and improving conditions in certain existing markets. We have signed strategic alliances with world leaders in transportation, mining and defense products and hope to do so with additional industry leaders in the coming year.

Raw material price volatility will continue to impact both our rubber product businesses, particularly in the first six months of 2008. Short term shortages will likely cause temporary increases in synthetic rubber prices. Other key materials such as carbon black, processing oils and natural rubber have also increased in price. These increases will continue to exert pressure on margins.

Foreign exchange fluctuations will have a greater impact on AirBoss-Defense due to the fact that a high percentage of our military sales are denominated in US dollars. These are now familiar challenges for us and everyone in the industries that we serve. We believe we have positioned ourselves well to continue to deal with them.

We continue to make every effort to provide the highest level of quality, efficiency of production, and excellence of product design to our customers. In pursuing these goals we would like to thank our shareholders, employees, suppliers and our customers for their efforts, support and feedback.

P.G. Schoch
Chairman

R.L. Hagerman
President and CEO

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of AirBoss of America Corp. ("AirBoss" as the "Company") has been prepared as of March 20, 2008 and should be read in conjunction with the Consolidated Financial Statements and Notes prepared in accordance with Canadian generally accepted accounting principles. Additional information regarding the Company, including its Annual Information Form, can be found at SEDAR at www.sedar.com and at the Company's website at www.airbossofamerica.com.

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

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

This list is not exhaustive of the factors that may affect any of AirBoss' forward-looking statements. Investors are cautioned not to put undue reliance on forward-looking statements. All subsequent written and oral forward-looking statements attributable to AirBoss or persons acting on its behalf are expressly qualified in their entirety by this notice. Whether as a result of new information, future events or otherwise, AirBoss disclaims any intent or obligation to update publicly these forward-looking statements. Risks and uncertainties about AirBoss' business are more fully discussed under the heading "Risk Factors" section of the Company's annual report on pages 20 to 23.

COMPANY PROFILE

AirBoss of America Corp. develops, manufactures, and sells high quality proprietary rubber-based products offering enhanced performance and productivity to transportation, military and industrial markets. With a capacity to supply 250 million pounds of rubber annually to a diverse group of rubber manufacturers, AirBoss is one of North America's largest custom compounding companies. The Company also develops, markets and sells a number of rail fastening systems to America's largest railroads.

Highlights

- 22% sales increase in AEP due to AirBoss-Defense sales
- Other markets affected by US dollar and softening economy
- Margins affected significantly by strengthening Canadian dollar
- $2.7 million reduction in costs
- Lower effective tax rate from adjustments to future income taxes

Management’s Discussion and Analysis of Financial Condition and Results of Operations (cont’d)

Selected Financial Information

Years ended December 31 (thousands, except per share amount)	**2007**	2006	2005
Financial results:			
Net sales	**$ 227,092**	$ 230,629	$ 226,242
Net income from continuing operations	**4,114**	6,715	1,552
Net income	**4,114**	6,490	1,601
Net income per share - continuing operations			
- Basic	**0.17**	0.29	0.07
- Diluted	**0.17**	0.28	0.07
Net income per share			
- Basic	**0.17**	0.28	0.07
- Diluted	**0.17**	0.27	0.07
Operating cash flow provided by (used in) continuing operations	**7,389**	(2,500)	13,077
Capital expenditures	**4,637**	6,956	11,564
Financial Position:			
Total assets	**$ 138,536**	$ 139,216	$ 124,679
Demand loan	**20,893**	20,807	11,763
Term loan and other debt	**17,444**	20,600	22,757
Shareholders’ Equity	**66,727**	64,075	56,248
Outstanding shares	**23,805***	23,755	22,839
**unchanged at March 20, 2008*			

Rubber Compounding

The Company is one of North America’s leading custom rubber mixers with the capacity to supply 250 million pounds annually. Its rubber mixing facilities are located in Kitchener, Ontario; Acton-Vale, Québec; and Scotland Neck, North Carolina. Approximately three quarters of its customers by volume are located in the United States.

Rubber compounds are utilized in many products and industries, including pneumatic and solid tire manufacturing, conveyor belting, roofing, and automotive parts. AirBoss Rubber Compounding is one of the few rubber compounders in North America who, due to the nature of its equipment and its stringent quality assurance procedures, are approved suppliers to major tire companies. The majority of its business is serving a wide range of customers in the mining, energy generation, warehousing and transportation industries. The Company provides custom compound formulation and independent testing services from accredited laboratory facilities in Kitchener, Ontario.

AirBoss is a major consumer of commodities such as natural rubber, synthetic rubber and carbon black. These materials are sourced from world markets and are typically paid for in US dollars.

AirBoss Engineered Products (“AEP”)

Located in Acton-Vale, Québec, AEP consists of two divisions; AirBoss-Defense and Industrial Products.

The AirBoss-Defense division is a world leader in the development and sale of Chemical, Biological, Radiological and Nuclear (“CBRN”) protective wear. These products are sold to major military and First Response customers in North America and Europe. Principal CBRN products include rubber overshoes, gloves and gas masks which utilize AirBoss’ extensive expertise in rubber compound formulation. AirBoss-Defense also manufactures and sells CBRN firefighter boots and Extreme Cold Weather (“ECW”) military footwear.

The Industrial Products division sells extruded and calendered rubber products serving the recreational, agricultural and industrial markets.

Railway Products Division

The Railway Product Division located in Kansas City, Missouri, engineers, develops and sells railway track fastening systems. The Company is a major supplier of these systems to the largest railroads in the United States. The key products sold are elastic fastening systems consisting of steel spring clips, polymer protective pads and polymer insulators. The steel clip and the polymer product manufacture are outsourced using Company owned tooling.

RESULTS OF OPERATIONS – 2007 compared to 2006

SALES FROM CONTINUING OPERATIONS

Sales revenues from continuing operations decreased 1.5%. Approximately 79% of all sales are invoiced in US Dollars.

			Engineered Products		
($ thousands)		Rubber Compounding Operations	AEP & Other	Railway Products	Total
Net sales	**2007**	**163,534**	**45,840**	**17,718**	**227,092**
	2006	171,531	37,462	21,636	230,629
Increase (decrease) $		(7,997)	8,378	(3,918)	(3,537)
Increase (decrease) %		(4.7)%	22.4%	(18.1)%	(1.5)%

Rubber Compounding

Sales expressed in Canadian dollars decreased 4.7% compared to 2006 primarily as a result of lower volumes and a lower US dollar partially offset by higher average selling prices to recover increased raw material costs. A weaker US dollar accounted for $7.3 million or 90% of the reduction in revenue.

Sales volumes expressed in pounds decreased by 7.5% compared to 2006 as a result of weaknesses in two sectors. The sector showing the largest decline was tires, including pneumatic, both original and retread, as well as solids. Sales to this group declined by 5.6% for the year. Sales of rubber compounds to belt manufacturers declined by 3.6% compared to 2006. Offsetting these decreases were increases in the mining and defense sectors of approximately 3.5%.

Sales volumes are expected to increase in the first quarter of 2008 as a result of new customers being added as well as recoveries in the off-road tire retread market due to US duties imposed on certain imports.

AirBoss Engineered Products

Sales increased by 22% compared to 2006 even though a weaker US dollar reduced sales to US customers by approximately $2.1 million. Defense sales increased 46% over 2006 to $28 million. This increase was attributed to strong sales of CBRN overboots, ECW boots and gloves to the US Military as well as rubber tank repair items such as tank track pad pre-forms and rubber strip stock.

2008 is shaping up to be a much stronger year due to committed orders at this point in time. The bottom line will be impacted by currency movements but at this point, it is uncertain as to how these will play out.

Industrial Products sales decreased $0.3 million due to weakness in demand by major customers for rubber products used in the manufacture of industrial rubber tracks.

Railway Products

Sales in Canadian dollars decreased by $3.9 million for the year ended December 31, 2007 compared to 2006. The lower US dollar exchange rate accounted for $1 million of this decline and the balance is from a decline in sales of plastic insulators.

GROSS MARGIN

Gross margin for the year ended December 31, 2007 was $23.7 million, a decrease of $6.5 million compared to 2006 primarily attributable to lower sales and the strengthening of the Canadian dollar. The percentage margin also decreased from 13.1% to 10.4%.

			Engineered Products		
($ thousands)		Rubber Compounding Operations	AEP	Railway Products	Total
Gross Margin	**2007**	**14,714**	**6,857**	**2,152**	**23,723**
	2006	18,259	8,048	3,900	30,207
Decrease $		(3,545)	(1,191)	(1,748)	(6,484)
% net of sales	**2007**	**9.0**	**15.0**	**12.1**	**10.4**
	2006	10.6	21.5	18.0	13.1

Rubber Compounding

The decrease in gross margin in fiscal 2007 was attributable to the rising costs of raw materials which were exacerbated by currency fluctuations and temporary supply shortages which necessitated spot purchasing. A very competitive market makes it difficult to always recover these cost increases seamlessly.

Lower volumes meant that increased production efficiencies were required to maintain production unit costs in line with the previous year. The greatest improvements were realized at the new Scotland Neck, North Carolina facility.

Gross margins of the compounding business were impacted $0.3 million by the Canadian dollar strengthening from $0.86 as at the end of 2006 to $1.01 at the end of 2007. Sales denominated in US dollars were offset significantly by US dollar purchases of raw materials. Canadian input costs were offset by Canadian dollar sales.

AirBoss Engineered Products

Gross margin at AEP had decreased by $1.2 million during the current year. Of this amount approximately $1 million was due to the lower US dollar on Defense product sales. The margin generated from higher CBRN product sales offset declines due to reduced volumes in the Industrial division.

Railway Products

The gross margin percentage on sales for the year declined to 12% or $2.2 million due primarily to exchange fluctuations as the Company sources certain of its products outside of the US.

EXPENSES

Operating expenses, including other income and interest, for the year ended December 31, 2007 were $2.7 million lower than in 2006. Overall, the costs decreased as a percentage of sales and are 8.4% in 2006 compared to 9.6% in the previous year.

			Engineered Products			
($ thousands)		Rubber Compounding Operations	AEP	Railway Products	Unallocated Corporate Costs	Total
Operating expenses	**2007**	**8,921**	**6,292**	**1,516**	**2,449**	**19,178**
	2006	11,250	6,488	1,845	2,279	21,862
Increase (decrease) $		(2,329)	(196)	(329)	170	(2,684)
% net of sales	**2007**	**5.5**	**13.7**	**8.6**	**N/A**	**8.4**
	2006	6.6	17.3	8.5	N/A	9.5

Rubber Compounding

Operating expenses decreased by $2.3 million for the year. The major savings included reduced personnel costs in both sales and administration. There was also foreign exchange gain of $1.3 million primarily related to US dollar denominated debt and an accrual of $0.6 million for a recovery of a successful class action settlement.

AirBoss Engineered Products

AEP operating costs were $0.2 million lower than 2006 primarily related to one-time charges of $0.3 million incurred during 2006.

Railway Products

The expenses were 0.3 million lower than 2006 due to lower profit based compensation.

Unallocated Corporate Costs

Corporate costs increased primarily as a result of $0.2 million in consulting fees incurred in the fourth quarter.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $0.4 million or an effective income tax rate for the year of 9.5% compared to $1.6 million or 19.5% effective tax rate in 2006.

The primary factors contributing to a lower effective tax rate include:

- The federal government substantively enacted a reduction in the federal tax rate which triggered a $0.7 million decrease of future income tax liabilities;
- $0.5 million relating to foreign exchange translation gains in US entities; and
- partially offset by differences on filing of $0.2 million.

NET INCOME AND EARNINGS PER SHARE

Net income from continuing operations in 2007 was $4.1 million compared to $6.5 million in 2006 primarily from macro-economic conditions. The basic and fully diluted earnings per share were $0.17 (2006-$0.28) and $0.17 (2006-$0.27) in fiscal 2007 based on basic and fully diluted shares outstanding 23,788 (2006-23,550) and 23,997 (2006-23,828) respectively.

QUARTERLY INFORMATION

($ thousands except per share amounts)

		Net Income (Loss)		Net Income (Loss) Per Share Continuing Operations		Net Income (Loss) Per Share	
Quarter Ended	Net Sales	Continuing	Total	Basic	Diluted	Basic	Diluted
2007							
December 31	51,364	945	945	0.04	0.04	0.04	0.04
September 30	56,704	1,151	1,151	0.05	0.05	0.05	0.05
June 30	59,368	868	868	0.04	0.04	0.04	0.04
March 31	59,656	1,150	1,150	0.05	0.05	0.05	0.05
2006							
December 31	52,949	(95)	(8)	0.00	0.00	0.00	0.00
September 30	55,681	1,580	1,599	0.07	0.07	0.07	0.07
June 30	60,884	3,402	3,122	0.14	0.14	0.13	0.13
March 31	61,115	1,828	1,777	0.08	0.08	0.08	0.08

Fourth Quarter 2007

Sales in the fourth quarter of 2007 decreased by $1.6 million compared to 2006 as follows:

- $5.5 million decrease for rubber compounding attributable to softening of sales in mining belting, rubber tracks and automotive parts markets
- $4.4 million increase for AEP from higher military CBRN glove and overboot sales; and
- $0.5 million decrease for Railway Products.

Gross margin declined $0.2 million

- Rubber compounding gross margin declined by $1.0 million as a result of higher material costs
- AEP was affected by higher sales of Defense products contributing $1.1 million additional margins
- Lower Railway sales and weaker US dollar resulted in $0.3 million lower margins.

Operating expenses decreased by $0.8 million

- Small foreign exchange gain compared to a loss in 2006 of $0.6 million.
- Lower capital tax and other expenses of $0.1 million each in AEP.

Items impacting comparability of quarters

- The fourth quarter of 2007 included $0.7 million reduction of corporate taxes.
- The first quarter of 2007 reflected lower income and a temporary reduction in compounding volumes partially offset by $0.6 million award of damages from a successful class action lawsuit.
- The second quarter of 2006 included $0.9 million reduction corporate taxes and the recapture of $0.3 million of option expenses from forfeited stock options.

LIQUIDITY AND CAPITAL RESOURCES - 2007 compared to 2006

Cash flows from operations

AirBoss generated $6.6 million in operating cash flows before changes in working capital compared to $10.1 million in 2006. The decrease was due mainly to a $2.6 million decrease in net income which included higher foreign exchange gains.

Non-cash working capital

The investment in non-cash working capital relating to continuing operations decreased by $13.4 million as follows:

($ thousands)	**2007**	2006
Provided by (used in):		
Accounts receivable	**(3,938)**	(4,007)
Inventories	**8,773**	(8,560)
Prepaid expenses	**(468)**	(201)
Accounts payable and accrued liabilities	**958**	(301)
Income taxes payable	**(4,529)**	430
	796	(12,639)

Accounts receivable increased by $3.9 million due to higher military sales in the fourth quarter. These sales are typically afforded longer credit terms than commercial customers. There was also larger than normal sales of rubber compounds in the last two weeks of the year as customers sought to avoid raw material price increases.

Inventories decreased by $8.8 million. Most of this decrease was due to a reduction in rubber raw materials inventories in transit due to a shift in buying patterns towards domestic suppliers. The larger than normal sales in the last two weeks of the year also served to deplete finished good inventories.

Capital expenditures

Capital expenditures for the year ended December 31, 2007 were $4.6 million compared to $6.9 million in 2006. The Company invested $3.4 million in production equipment ($2.4 million in compounding, $1.0 million in AEP), $0.2 million for information systems, and $0.8 million in facility and facility related equipment primarily in the compounding segment, and $0.3 million in tooling for the railway business. Expenditures were reduced from the previous year as the North Carolina rubber compounding facility was completed in 2006.

Financing

During the fourth quarter of 2006, the Company renewed its term loan facility. Two loans were advanced consisting of:

- CDN $9 million, bearing interest at 6.18%, five year term, amortized over 15 years, with principal and interest payable monthly and the balance repayable October 15, 2011
- US $10 million, bearing interest at Libor plus 2.25% five year term, amortized over 15 years, with principal and interest payable monthly and the balance repayable October 15, 2011

The required principal payments were made pursuant to the loan agreement.

The Company also obtained a $45 million operating facility for capital and working capital requirements. The operating line of credit bears interest at a range from the bank's prime rate less 0.25% to prime plus 0.65% per annum, with respect to loans denominated in Canadian currency and from the US prime rate less 1% with respect to loans denominated in US currency. This facility is still in place.

The loan agreement provides the lenders with a 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.

The Company expects to fund its 2007 operating cash requirements, including required working capital investments, capital expenditures, and scheduled debt repayments from cash on hand, cash flow from operations, and committed borrowing capacity.

Commitments and contractual obligations

The Company's contractual obligations as at December 31, 2007 are summarized below. The term loan was renewed in October, 2006.

		Payments Due In					
($ thousands)	Total	2008	2009	2010	2011	2012	Thereafter
Term loan and other debt	17,443	1,362	1,261	1,261	13,559	-	-
Operating leases	1,072	410	346	169	94	54	-
Purchase obligations	6,588	6,588	-	-	-	-	-
Total	25,103	8,360	1,607	1,430	13,653	54	-

In the normal course of business, the Company has inventory purchase commitments for its Rubber Compounding and AEP business segments of $6.6 million.

Purchase obligations include enforceable and legally binding commitments to purchase raw materials, services and capital expenditures in the normal course of business. Capital expenditures can be financed with additional drawings against a term facility.

Forward exchange contracts

The Company has a $5 million forward contract as a partial hedge against US dollar denominated inventory.

Government assistance

The Company has entered into an agreement with Investment Quebec whereby Investment Quebec will contribute 10% or up to $0.5 million for eligible capital expenditures over a 2 year period. The agreement lists certain conditions, which if breached, would require the advanced funds to be repaid, with interest at 7.5%. Under the terms of the agreement, the Company has applied to recover $0.1 million ($0.2 million in 2006) against capital expenditures in 2007 and the capital assets were adjusted accordingly.

TRANSACTIONS WITH RELATED PARTIES

The Company rents corporate office space from a company controlled by the Chairman of the Company. This lease provides for an annual rental of $90,000 payable monthly and expires in August 2012. The lease provides for the purchase of the building should certain events occur which are beyond the control of the Chairman. The annual rental of $90,000 approximated the fair market rental at the inception of the lease in 2002.

During the year, the Company paid annual dues relating to a facility in South Carolina of approximately $21,500 ($22,000 in 2006) to a company in which the Chairman is an officer.

The Company provided a $0.1 million share purchase loan to an employee due June 15, 2009 bearing interest at 5% annually with full recourse and is included in the financial statements under the caption "other assets".

NEW ACCOUNTING POLICIES

Commencing January 1, 2007, the Company adopted three new CICA accounting standards: i) Section 3855 "Financial Instruments – Recognition and Measurement", ii) Section 3865 "Hedges" and iii) Section 1530 "Comprehensive Income". No material adjustments were required to the Balance Sheet or the Consolidated Statements of Income. The principal changes due to the adoption of these standards are summarized below:

i) Financial Instruments – Recognition and Measurement

- All financial instruments are classified into one of the following categories: held for trading, held to maturity investments, loans and receivables, available for sale financial assets or other financial liabilities.
- Gains and losses from the re-measure of held for trading financial instruments, such as cash and cash equivalents, are included in net income in the period in which they arose.
- All derivative financial instruments are measured at fair value including financial instruments that are part of a hedging relationship.

As a result of adopting this standard, the Company has designated its forward contracts as held for trading, accounts receivable, note receivable and restricted funds as loans and receivables, accounts payable, demand loan and long term debt as other liabilities.

Financing fees relating to the negotiation of the term loan are added to the fair value of the financial liability and are amortized over the term using the effective interest method. The Company has reclassified $0.1 million of financing fees from other assets to term loan as a result of adopting this standard.

ii) Forward Contracts

- All derivatives are categorized as held for trading, are recorded at fair value, with all changes in fair value being reflected in the income statement.

iii) Comprehensive Income

Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances other than the Company's shareholders and would not normally be included in net earnings, such as:

- Changes in the cumulative translation adjustment related to self-sustaining operations;
- Unrealized gains or losses on available-for-sale investments; or

The implications to the Company include:

- A new statement of comprehensive income now forms part of the consolidated financial statements and displays current period net income and other comprehensive income.
- Accumulated comprehensive income is a separate component of shareholders' equity.
- The unrealized foreign currency translation gains/losses on the net investment in a self-sustaining foreign operation is reclassified to accumulated other comprehensive income (loss).

There are a few new standards to be adopted effective January 1, 2008 as follows:

Inventories

The new Section 3031 "Inventories", was issued in June 2007 and will replace existing Section 3030 of the same title. It provides guidance with respect to the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The cost of inventories include the costs to purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs and administrative overheads that do not contribute to bringing the inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period incurred. Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories is now required. The cost of the inventories should be based on a first-in, first-out or a weighted average cost formula. Techniques used for the measurement of cost of inventories, such as the retail method or standard cost method, may be used for convenience if the results approximate cost. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of any write-downs recognized as a reduction in expenses.

This standard is effective for fiscal years beginning on or after January 1, 2008. The difference in the measurement of opening inventory may be applied to the opening inventory for the period, with an adjustment to opening retained earnings with no prior periods restated, or retrospectively with a restatement to prior periods in accordance with Section 1506 "Accounting Changes".

The standard is applicable to the Company for the first quarter of 2008. The Company is currently assessing the implications of this standard to identify differences between the current accounting and the new guidance in the standard. In addition to the changes in inventory cost, the Company is reviewing the additional presentation and disclosure requirements which will be required in the consolidated financial statements and/or in the accompanying notes.

Capital Disclosures and Financial Instruments - Disclosure and Presentation

In December 2006, the CICA issued three new accounting standards: Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments Disclosure" and Section 3863 "Financial Instruments Presentation".

Section 1535 establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. Enhanced disclosures with respect to the objectives, policies and processes for managing capital and quantitative disclosure about what a company regards as capital are required.

Section 3862 and Section 3863 replace Section 3861 "Financial Instruments - Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments and how these risks are managed. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

CRITICAL ACCOUNTING POLICIES

The Company's preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The Company's estimates are based upon historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of the Company's ongoing evaluation of these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amounts for revenues and expenses. Actual results may differ from these estimates under different assumptions. These estimates and assumptions are affected by management's application of accounting policies. The Company's critical accounting policies are those that affect our Consolidated Financial Statements materially and involve a significant level of judgment by the Company. A summary of the significant accounting policies, including critical accounting policies, is set forth in Note 1 to the Consolidated Financial Statements. The Company's critical accounting policies include accounting for the impairment of long-lived assets, valuation of goodwill, and accounting for income taxes.

Impairment of Long-lived Assets

The Company reviews and evaluates our 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 is calculated by estimating undiscounted future net cash flows from the asset together with the asset's residual value. Future net cash flows are developed using assumptions that reflect the planned course of action for an asset given our best estimate of the most probable set of economic conditions. Inherent in these assumptions are significant risks and uncertainties. In the view of management, based on assumptions which they believe to be reasonable, no impairment has occurred.

Valuation of Goodwill

The Company reviews and evaluates our goodwill for impairment when an indicator of impairment exists in the underlying reporting units, but at least on an annual basis. In determining whether impairment has occurred in one of the Company's reporting units, management compares the reporting unit's carrying value to its fair value. Management determines the fair value of the Company's reporting units on a combination of a market approach and on discounted cash flows. Determination of fair value is based on a number of assumptions arising from the most current financial performance of each reporting 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 judgment is required to determine whether these factors at any one point in time, and in light of business initiatives, suggest a major change, positive or negative, to the prospects of the business and, therefore, to the valuation of goodwill.

Accounting for Income Taxes

The provision for recovery of 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 future 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 future tax assets and liabilities. 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 11 to the Consolidated Financial Statements.

Other Debt

Management evaluates its best estimate of the amount of environmental costs recoverable under the terms of an agreement at each reporting date.

RISK FACTORS

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's railway products division competes for the business of major US railroads with the North American subsidiary of a multi-national company, which is larger and may have greater financial resources. The Company's AirBoss-Defense division competes with international companies who may also have greater financial resources or who may be sheltered by domestic tariffs.

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 tire, energy generation, construction, mining, retail and rail transportation industries because these industries are significant markets for the Company’s business and is highly cyclical. For example, the Company’s railway fastening business is influenced by the economic conditions of the railroad industry. The railroad industry, in turn, is susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight it transports. If there is an economic slowdown or recession in North America or in the specific markets served by the major railroads, the volume of rail shipments carried by our customers is likely to be reduced, thereby reducing the need for new track construction and maintenance and, in turn, the demand for the Company’s railway fastening products.

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 was a very real risk in 2005 as the domestic production of key materials such as carbon black and certain synthetic rubbers was disrupted by storm damage. 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 every potential situation.

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. 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 2007:

$ millions Increase (decrease)		Earnings before tax
Natural & synthetic rubber	$	(6.1)
Carbon black		(2.0)

Weather

The Company manufactures rubber compounds used extensively in snowmobile tread manufacture. The annual sales of these compounds depend upon snowmobile sales, which in turn are affected by weather conditions. Accordingly, warm weather could have a negative impact on the sale of these companies.

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 affect on the Company. No product liability claims have been made against the Company. Warranty claims have not been material and are within industry standard expectations.

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. Five customers represented 49.0% and 54.3% of sales in 2007 and 2006 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.

Capacity and Equipment

The rubber compounding division has annual capacity to produce approximately 200 million pounds at the current product mix. The capacity, commencing in March 2006, was increased by 50 million pounds as the result of an expansion into a new facility located in Scotland Neck, North Carolina.

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 investments in capacity and efficiency in its Acton operations. In recent years, the Company purchased moulds and injection equipment to enhance its presence in military protective products such as CBRN protective gloves, military footwear and gas masks.

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

Currency Exposure

The Company has revenues and expenses denominated in both Canadian and US 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 adverse effect on the Company's results of operations. This was particularly evident in 2007 as well as in 2003 and 2004. 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 US funds as a natural balance sheet hedge or establish forward contracts to sell US 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 US dollar in Canadian currency (million):

Increase (decrease)	Earnings before tax
Sales (1)	(15.7)
Purchases (2)	13.7

(1) Based upon US dollar-denominated sales in 2007

(2) Based upon combined 2007 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 environment obligations.

The Company's remediation of pre-existing contamination at Acton-Vale, Québec was completed at the beginning of 2006. Under the terms of the 1999 purchase agreement, cleanup costs are to be borne by the vendors. Accordingly, the Company does not anticipate any material financial impact from remediation efforts.

Litigation

The Company may become involved in litigation which could result in substantial expenses, divert the attention of management, cause significant delays to product development and/or distribution, and materially disrupt the conduct of the Company's business or adversely effect its revenues, financial condition and results or operations.

DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the fiscal year of AirBoss of America Corp. (the “Issuer”), an evaluation was carried out under the supervision of and with the participation of the Issuer’s management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as of December 31, 2007, the end of the period covered by management’s discussion and analysis, to ensure that material information relating to the Issuer and its consolidated subsidiaries would be made known to them by other within those entities.

The Company’s President and Chief Executive Officer and its Vice President, Finance and 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.

After evaluating the effectiveness of the Company’s disclosure controls and procedures as at December 31, 2007, the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective to ensure that material information relating to the Company and its subsidiaries would have been known to them.

OUTLOOK

Sales volumes should increase in both our Rubber Compounding and AirBoss-Defense divisions in 2008. AirBoss-Defense has sales and a confirmed order backlog of approximately $27 million or an amount almost equal to total 2007 sales. Further material orders for 2008 deliveries are expected for gas masks as well for CBRN products which should result in a significant year over year increase.

Sales of Rubber Compounds have increased in the first quarter of 2008 as a result of several factors. Certain sectors such as OTR retreading and solid tires have shown a recovery over a poor 2007. Further volume increases have also materialized in the defense and mining sectors. New customers in different industries have also been added. The Company expects meaningful volumes from the agricultural and flooring industries in 2008.

Raw material prices are expected to increase while maintaining a significant level of volatility. This could be exacerbated by short-term supply disruptions, particularly in the case of certain synthetic rubbers, and currency fluctuations. Material cost control for both customers and suppliers will continue to be difficult in the first six months of 2008 and cause significant margin pressures. Currency fluctuations are manageable in the rubber compounding business; however they require a great deal more attention in the Defense Division.

In summary we anticipate a return to the historical internally generated growth rates in both of our key businesses. Increased volumes should help with the challenges from commodity price inflation and exchange and provide for improved profitability.

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 Canadian generally accepted accounting principles. When alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented in this annual report and has ensured that it is consistent with that presented in the financial statements.

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

The Board of Directors is responsible for ensuring that management fulfils 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, 2007 and 2006 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 20, 2008

R.L. Hagerman
President and Chief Executive Officer

S.W. Richards
Vice-President Finance and CFO

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

We have audited the consolidated balance sheets of AirBoss of America Corp. as at December 31, 2007 and 2006 and the consolidated statements of income and retained earnings, comprehensive income and accumulated other comprehensive income and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licenced Public Accountants
Toronto, Canada
March 20, 2008

Consolidated Balance Sheets

(thousands $ CDN) As at December 31	2007	2006
ASSETS		
Current assets:		
Accounts receivable	$ 29,346	$ 25,486
Inventories (Note 4)	24,181	33,099
Prepaid expenses	1,102	642
Income taxes receivable	2,322	-
Current assets of discontinued operations	-	351
Total current assets	56,951	59,578
Capital assets (Note 5)	56,085	55,979
Goodwill	16,620	16,620
Future income tax assets (Note 11)	4,258	2,748
Other assets (Note 6)	4,622	4,291
Total assets	$ 138,536	$ 139,216
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand loan (Note 7)	$ 20,893	$ 20,807
Accounts payable and accrued liabilities	21,239	20,482
Income taxes payable	-	2,188
Dividends payable (Note 9)	595	-
Current liabilities of discontinued operations	-	143
Current portion of term loan and other debt (Note 8)	1,361	1,678
Total current liabilities	44,088	45,298
Term loan and other debt (Note 8)	16,083	18,922
Future income tax liabilities (Note 11)	9,673	9,269
Accrued post retirement benefit liability (Note 13)	1,965	1,652
Total liabilities	71,809	75,141
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Share capital (Note 9)	40,537	40,395
Contributed surplus (Note 9)	1,491	1,240
Accumulated other comprehensive loss	(823)	(158)
Retained earnings	25,522	22,598
Total shareholders' equity	66,727	64,075
Total liabilities and shareholders' equity	$ 138,536	$ 139,216

See accompanying notes to consolidated financial statements.

On behalf of the Board

Robert L. Hagerman
Director

Robert L. McLeish
Director

Consolidated Statements of Income and Retained Earnings

(thousands $ CDN, except per share amounts) For the year ended December 31	2007	2006
NET SALES	$ 227,092	$ 230,629
Cost of sales	203,369	200,422
Gross margin	23,723	30,207
OPERATING EXPENSES		
General and administrative	9,172	9,774
Selling, marketing and distribution	6,925	7,331
Product research	852	1,309
Total operating expenses	16,949	18,414
Income from continuing operations before undernoted items	6,774	11,793
Other (income) expense	(976)	331
Income from continuing operations before interest expense and income taxes	7,750	11,462
Interest expense	3,205	3,117
Income from continuing operations before income taxes	4,545	8,345
Provision for income taxes (Note 11)	431	1,630
Income from continuing operations	4,114	6,715
Loss from discontinued operations	-	(225)
Net income	4,114	6,490
Retained earnings, beginning of year	22,598	16,108
Dividends	(1,190)	-
Retained earnings, end of year	$ 25,522	$ 22,598
Net income from continuing operations per share (Note 10)		
- Basic	$ 0.17	$ 0.29
- Diluted	0.17	0.28
Net income per share (Note 10)		
- Basic	$ 0.17	$ 0.28
- Diluted	0.17	0.27

See accompanying notes to consolidated financial statements

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income

(thousands $ CDN) Year ended December 31	2007	2006
Net Income	$ 4,114	$ 6,490
Other comprehensive income (loss) - net of income tax	(665)	67
Comprehensive income	$ 3,449	$ 6,557
Accumulated other comprehensive loss, beginning of year	$ (158)	$ (225)
Accumulated other comprehensive income (loss) - net of income tax	(665)	67
Accumulated other comprehensive loss, end of year	$ (823)	$ (158)

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

(thousands $ CDN) For the year ended December 31	2007	2006
CASH PROVIDED BY (USED IN):		
Operating Activities:		
Net income from operations	$ 4,114	$ 6,715
Items not affecting cash:		
Amortization	4,853	4,713
Loss (Gain) on disposal of capital assets	(80)	2
Future income taxes	(1,105)	(2,158)
Foreign exchange (gain) loss	(1,802)	454
Stock option expense	300	110
Post-retirement benefits expense	313	303
	6,593	10,139
Changes in non-cash operating working capital balances (Note 15)	796	(12,639)
Net cash provided by (used in) continuing operations	7,389	(2,500)
Net cash provided by discontinued operations	-	810
Cash provided by (used in) operating activities	7,389	(1,690)
Investing Activities:		
Purchase of capital assets	(4,637)	(6,956)
Increase in other assets	(722)	(1,301)
Decrease in other assets	-	2,043
Proceeds of disposal of capital assets	83	18
Cash used in investing activities	(5,276)	(6,196)
Financing Activities:		
Net increase (decrease) in demand loan	(80)	9,044
Increase in term loan	-	22,184
Repayment of term loan	(1,329)	(24,431)
Settlement of other debt	(201)	(71)
Dividends paid	(595)	-
Issuance of share capital	92	1,160
Cash provided by (used in) financing activities	(2,113)	7,886
Increase (decrease) in cash during the period	-	-
Cash at the beginning of the year	-	-
Cash at the end of the year	$ -	$ -
Supplementary Cash Flow Information:		
Cash Interest paid	$ 3,286	$ 3,071
Cash income taxes remitted	6,455	3,975
Transfer of assets from discontinued operations	-	61

See accompanying notes to consolidated financial statements

For the years ended December 31, 2007 and 2006

(Tabular amounts in thousands of dollars, except per share amounts)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries (collectively, the "Company"). Intercompany balances and transactions have been eliminated upon consolidation. Certain comparative figures have been reclassified to conform with the current year's presentation.

Capital Assets

Capital assets are recorded at cost, net of government assistance, and are depreciated to the estimated salvage values on the following basis over their expected useful lives:

Buildings – straight-line basis over twenty-five years.

Equipment – straight-line basis over five years to fifteen years or on a unit of production basis.

The Company reviews the carrying value of its capital assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the carrying amount of an asset that is held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal. The loss is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is measured by discounted cash flows or appraised value, depending on the nature of the asset. For assets available for sale, an impairment loss is recognized when the carrying amount exceeds the fair value less costs to sell.

Asset retirement obligation

The Company records the fair value of the liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The Company determined that it had an obligation to perform environmental remediation to its AirBoss Engineered Products Inc. site, in Acton-Vale, Québec. The Company obtained competitive quotations from qualified environmental remediation companies. The remediation was substantially completed in 2005 and the balance of the cost to remediate the site was recorded as a claim receivable from the prior owners.

Inventories

Inventories are recorded at the lower of cost and market. Cost is determined on a first-in, first-out basis. Market is defined as replacement cost for raw materials and net realizable value for work-in-progress and finished goods.

Other Assets

Patents

The Company has capitalized the costs incurred to acquire patents. Patent costs are amortized over the life of the patent.

Product development

The Company has capitalized the costs incurred in developing the products that it plans to bring into commercial production. Product development costs are amortized on a unit-of-production basis. All other product development and research costs are expensed as incurred.

Start-up costs

The Company has capitalized certain pre-operating costs related to its rubber compounding facility in North Carolina. Deferred start-up costs are amortized over 5 years on establishing commercial production levels.

Goodwill

The Company is required to evaluate goodwill annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Absent any triggering factors during the year, the Company conducts its goodwill assessment in the fourth quarter to correspond with its measurement planning cycle. Impairment is tested at the reporting unit level by comparing the reporting unit's carrying amount to its fair value. The fair values of the reporting units are estimated using a combination of an EBIT (earnings before interest and taxes) multiple and excess earnings approach. To the extent a reporting unit's carrying amount exceeds its fair value, an impairment of goodwill exists. During the fourth quarters of 2007 and 2006, the Company performed its annual goodwill impairment test. Revenue and expense projections used in determining the fair values of the reporting units were based on management's estimates, including estimates of current and future industry conditions. The Company determined there was no impairment for 2007 or 2006 as the reporting unit fair values exceeded their carrying values.

Revenue Recognition

Revenue from the sale of manufactured products is recognized when measurable, upon shipment to or receipt by customers (depending on contractual terms).

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

Volume rebates are usually established as a percentage of sales with a commitment to a base amount, accrued on a systematic and rational basis estimating the level of expected amounts to be paid based on past experience, and are reported as a reduction of gross revenue.

Foreign Currency Translation

The Company’s policy for translation of foreign operations depends on whether the foreign operations are considered integrated or self-sustaining. The accounts of the Company’s Railway Products subsidiary has been classified as self-sustaining and are translated into Canadian dollars at the period end exchange rate for assets and liabilities, and the average exchange rate in effect for the period for revenue and expenses. Net unrealized exchange gains and losses arising from the translation of this foreign subsidiary is shown in the accumulated other comprehensive income, as a separate component of shareholders’ equity.

The accounts of the Company’s remaining wholly owned subsidiaries are classified as integrated and have been translated using the temporal method, which translates monetary items at the rate of exchange in effect at the balance sheet date and non-monetary items at historical rates. Revenue and expense items are translated at the rate of exchange in effect on the dates they occur. Exchange gains and losses arising on translation of foreign currency are included in current operations.

Income Taxes

Future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Company’s provision for current income taxes and the difference between opening and ending balances of future income tax assets and liabilities.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Significant areas requiring the use of estimates relate to rates of amortization and valuation of capital assets and valuation of goodwill. Actual results could differ from those estimates.

Post Retirement Benefits

The Company provides designated employees with defined post retirement benefits based upon their years of service. These benefits are accrued by the Company and remain unfunded unless certain events occur. The current provision for the benefit expense includes amortization of actuarial losses and transitional obligation over the remaining years of employment until the maximum entitlement is achieved; imputed interest on the unfunded balance and a provision for current service. The accrued benefit liability at December 31, 2007 and the benefit expense for the year ended December 31, 2007 were determined based on a December 31, 2007 valuation.

The Company provides certain employees with post retirement life insurance benefits under a plan that is unfunded. The current provision for the benefit expense reflects actuarially-determined imputed interest on the unfunded balance, net of annual employer contributions, amortization of the transitional obligation over the remaining years of employment and a provision for current service. The Company uses the “Corridor Approach” to accrue actuarial gains or losses. The accrued benefit liability at December 31, 2007 and the benefit expense for the year ended December 31, 2007 were determined based on a January 1, 2006 valuation of the plan and an extrapolation to December 31, 2007 for disclosure purposes.

Stock-based Compensation

Employee stock options granted or modified on or after January 1, 2003 are accounted for using the fair-value based method. Under the fair-value based method, compensation cost of a stock option is measured at fair value at the date of the grant and is expensed over the stock options’ vesting period, with a corresponding increase to contributed surplus. When these stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded in capital stock. Stock options granted prior to January 1, 2003 are accounted for using the settlement method.

Government assistance
Government assistance is recorded as a reduction of the cost of the asset acquired when reasonable assurance exists that the Company has complied with the terms and conditions of the approved grant.

NOTE 2 CHANGES IN ACCOUNTING POLICIES

Commencing January 1, 2007, the Company adopted three new CICA accounting standards: i) Section 3855 "Financial Instruments – Recognition and Measurement", ii) Section 3865 "Hedges" and iii) Section 1530 "Comprehensive Income". No material adjustments were required to the Balance Sheet or the Consolidated Statements of Income. The principal changes due to the adoption of these standards are summarized below:

i) Financial Instruments – Recognition and Measurement

- All financial instruments are classified into one of the following categories: held for trading, held to maturity investments, loans and receivables, available for sale financial assets or other financial liabilities.
- Gains and losses from the re-measure of held for trading financial instruments, such as cash and cash equivalents, are included in net income in the period in which they arose.
- All derivative financial instruments are measured at fair value including financial instruments that are part of a hedging relationship.

As a result of adopting this standard, the Company has designated its cash and forward contracts as held for trading; accounts receivable, note receivable and restricted funds as loans and receivables; and accounts payable, demand loan and long term debt as other liabilities.

Financing fees relating to the negotiation of the term loan are deducted from the fair value of the financial liability and are amortized over the term using the effective interest method. The Company has reclassified $0.1 million of financing fees from other assets to term loan as a result of adopting this standard.

ii) Forward Contracts

- All derivatives are categorized as held for trading, are recorded at fair value, with all changes in fair value being reflected in the income statement.

iii) Comprehensive Income

Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances other than the Company's shareholders and would not normally be included in net earnings, such as:

- Changes in the cumulative translation adjustment related to self-sustaining operations and;
- Unrealized gains or losses on available-for-sale investments.

The implications to the Company include:

- A new statement of comprehensive income now forms part of the consolidated financial statements and displays current period net income and other comprehensive income.
- Accumulated comprehensive income is a separate component of shareholders' equity.
- The unrealized foreign currency translation gains/losses on the net investment in a self-sustaining foreign operation is reclassified to accumulated other comprehensive income (loss).

Recently Issued Accounting Pronouncements

Inventories

The new Section 3031 "Inventories", was issued in June 2007 and will replace existing Section 3030 of the same title. It provides guidance with respect to the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The cost of inventories include the costs to purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs and administrative overheads that do not contribute to bringing the inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period incurred. Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories is now required. The cost of the inventories should be based on a first-in, first-out or a weighted average cost formula. Techniques used for the measurement of cost of inventories, such as the retail method or standard cost method, may be used for convenience if the results approximate cost. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of any write-downs recognized as a reduction in expenses.

This standard is effective for fiscal years beginning on or after January 1, 2008. The difference in the measurement of opening inventory may be applied to the opening inventory for the period, with an adjustment to opening retained earnings with no prior periods restated, or retrospectively with a restatement to prior periods in accordance with Section 1506 "Accounting Changes".

The standard is applicable to the Company for the first quarter of 2008. The Company is currently assessing the implications of this standard to identify differences between the current accounting and the new guidance in the standard. In addition to the changes in inventory cost, the Company reviewed the additional presentation and disclosure requirements which will be required in the consolidated financial statements and/or in the accompanying notes and no material changes are expected.

Capital Disclosures and Financial Instruments - Disclosure and Presentation

In December 2006, the CICA issued three new accounting standards: Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments Disclosure" and Section 3863 "Financial Instruments Presentation".

Section 1535 establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. Enhanced disclosures with respect to the objectives, policies and processes for managing capital and quantitative disclosure about what a company regards as capital are required.

Section 3862 and Section 3863 replace Section 3861 "Financial Instruments - Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments and how these risks are managed. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

These standards are effective for fiscal years beginning on or after October 1, 2007 and therefore the Company will implement them in the first quarter of 2008.

NOTE 3 DISCONTINUED OPERATIONS

A summary statement of discontinued operations for the commercial footwear and tire manufacturing operations is as follows:

December 31		**2007**		2006
Net sales	**$**	**-**	$	388
Income (loss) before tax		**-**		(372)
Net income (loss)		**-**		(225)
Amortization	**$**	**-**	$	44

NOTE 4 INVENTORIES

Inventories are comprised of the following:

December 31		**2007**		2006
Raw materials	**$**	**15,558**	$	21,448
Work-in-progress		**2,243**		2,685
Finished goods		**6,380**		8,966
Total	**$**	**24,181**	$	33,099

NOTE 5 CAPITAL ASSETS

December 31, 2007	**Cost**	**Accumulated amortization**	**Net**
Land	**$ 2,500**	**$ -**	**$ 2,500**
Buildings	**12,314**	**3,996**	**8,318**
Equipment	**80,269**	**35,002**	**45,267**
	$ 95,083	**$ 38,998**	**$ 56,085**

December 31, 2006	Cost	Accumulated amortization	Net
Land	$ 2,500	$ -	$ 2,500
Buildings	11,968	3,392	8,576
Equipment	76,399	31,496	44,903
	$ 90,867	$ 34,888	$ 55,979

Amortization expense for continuing operations for the years ended December 31, 2007 and 2006 was $4,353,000 and $4,196,000 respectively.

NOTE 6 OTHER ASSETS

Other assets are comprised of the following:

December 31	**2007**	2006
Product development	**$ 2,056**	$ 2,065
Restricted Funds	**2,842**	2,390
Start-up costs - Scotland Neck facility	**1,453**	1,453
Patents	**113**	113
Other	**261**	108
Subtotal	**$ 6,725**	$ 6,129
Accumulated amortization	**(2,103)**	(1,838)
Total	**$ 4,622**	$ 4,291
Amortization expense	**$ 472**	$ 517

Restricted funds represent monies held in escrow pursant to the settlement of other debt (note 8).

NOTE 7 DEMAND LOAN

On April 28, 2005, the Company obtained a new operating line facility to finance growth requirements with a borrowing capacity of $45 million.

The demand loan bears interest at a range from the bank's prime rate less 0.25% to prime plus 0.65% per annum, with respect to loans denominated in Canadian currency and from the U.S prime rate less 1% to the U.S. prime rate with respect to loans denominated in U.S. currency.

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 2007 on the demand loan was $1.3 million ($1.3 million in 2006).

NOTE 8 TERM LOAN AND OTHER DEBT

Term Loan

During the fourth quarter of 2006, the Company renewed its term loan facility. Two loans were advanced consisting of:

December 31		2007		2006
CDN $9 million, bearing interest at 6.18%, five year term, amortized over 15 years, with principal and interest payable monthly and the balance repayable October 15, 2011	$	**8,300**	$	8,900
US $10 million, bearing interest at Libor plus 2.25%, five year term, amortized over 15 years, with principal and interest payable monthly and the balance repayable October 15, 2011		**9,142**		11,524
Subtotal	$	**17,442**	$	20,424
Less principal due within one year		**1,261**		1,377
	$	**16,181**	$	19,047
Less deferred financing fees		**98**		125
	$	**16,083**	$	18,922

The term loan is secured by a general security agreement entered into by the Company and by its subsidiaries supported by collateral mortgages. Interest expense in 2007 on the term loan was $1.4 million ($1.8 million in 2006).

Other Debt

December 31		2007		2006
Other debt	$	**100**	$	301

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 $ 1,847,000 (2006 - $2,955,750) on the assets of AirBoss Engineered Products Inc., rank 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 and environmental costs under certain conditions. During 2002, the Company exercised its right of offset against the vendors' note for the recovery of purchase price and suspended payments of principal and interest pending resolution of its claims. During 2006, the Company had settled $1.5 million of the purchase price (plus accrued interest) under the terms of the agreement. During 2007, the Company settled one of the promissory notes which reduced the obligation a further $0.22 million. The Company has recorded the net obligation of $0.1 million after offsetting the recovery of purchase price and environmental costs pursuant to the agreement.

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

($ thousands)	Total	2008	2009	2010	2011	2012	Thereafter
Term loan and other debt	17,543	1,361	1,261	1,261	13,660	-	-

NOTE 9 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 of 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:		Common Shares	
		Amount	Number of Common Shares
Balance, December 31, 2005	$	39,056	22,838,923
Exercise of stock options, 2006		1,339	916,500
Balance, December 31, 2006	$	40,395	23,755,423
Exercise of stock options, 2007		142	50,000
Balance, December 31, 2007	$	40,537	23,805,423

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:

	Amount
Balance, December 31, 2005	$ 1,309
Stock option expense, 2006	110
Exercise of stock options, 2006	(179)
Balance, December 31, 2006	$ 1,240
Stock option expense, 2007	301
Exercise of stock options, 2007	(50)
Balance, December 31, 2007	$ 1,491

Stock Options

The Company has reserved 1,820,300 (2006 – 1,870,300) 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, 2007 are as follows:

Options outstanding				Options exercisable	
Range of exercise price	Options outstanding	Weighted average contract life	Weighted average exercise price	Options exercisable	Weighted average exercise price
$ 2.59	400,000	0.22	$ 2.59	400,000	$ 2.59
2.25	440,000	1.88	2.25	220,000	2.25
4.03 to 4.6	206,000	2.69	4.46	61,800	4.46
5.00	637,000	3.64	5.00	35,550	5
3.01	80,000	5.11	3.01	-	-

Options granted and outstanding:

A summary of the status of the Company's stock option plan as of December 31, 2007 and 2006, and changes during the years then ended, is presented below:

	2007		2006	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	**1,733,000**	**$ 3.59**	2,460,000	$ 2.27
Granted	**80,000**	**3.01**	637,000	5.00
Exercised	**(50,000)**	**1.85**	(916,500)	1.27
Forfeited	**-**	**-**	(447,500)	3.04
Outstanding, end of year	**1,763,000**	**$ 3.61**	1,733,000	$ 3.59

The fair value of options issued has been determined using the following assumptions:

Assumptions	
Risk-free rate	**4.07%**
Dividend yield	**1.66%**
Volatility factor of the expected market price of Company's shares	**46.34%**
Average expected option life (years)	**5.0**
Weighted-average grant date fair value per share of options granted during the period	**$ 1.20**

Notes to Consolidated Financial Statements (cont'd)

The stock options issued vest as follows:

Currently vested	717,350
2008	198,750
2009	220,900
2010	126,750
2011	479,250
2012	20,000
	1,763,000

During the year, the Company recorded stock-based compensation on a graded vesting model basis of $0.3 million ($0.1 million in 2006) relating to current and prior year option grants in general and administrative expenses of the statement of income.

A semi-annual dividend on common shares for 2007 were paid July 25, 2007 and January 25, 2008 at a rate of $0.025 per share for shareholders of record at June 30, 2007 and December 31, 2007.

NOTE 10 EARNINGS PER SHARE

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

December 31	2007	2006
Numerator for basic and diluted earnings per share:		
Net income	**4,114**	6,490
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	**23,788**	23,550
Effect of stock options	**209**	278
Diluted weighted average number of shares outstanding	**23,997**	23,828
Net income from continuing operations per share		
- Basic	**$ 0.17**	$ 0.29
- Diluted	**0.17**	0.28
Net income per share		
- Basic	**$ 0.17**	$ 0.28
- Diluted	**0.17**	0.29

NOTE 11 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	2007	2006
Combined federal and provincial statutory income tax	**$ 1,486**	$ 2,728
Change in the valuation allowance for future income tax assets	**190**	(217)
Effect of change in substantively enacted rate	**(856)**	(700)
Differences arising on filing	**46**	(114)
Income tax related to non-deductible expenses	**(542)**	86
Foreign tax differential	**106**	200
Other	**1**	(353)
Total expense	**$ 431**	$ 1,630
The components of the provision for income taxes are as follows:		
Current	**$ 1,536**	$ 3,623
Future	**(1,105)**	(1,993)
Total	**$ 431**	$ 1,630

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

December 31	**2007**	2006
Future income tax assets:		
Non-capital income tax loss carry-forwards	**$ 3,692**	$ 2,082
Future income tax deductions relating to long-term liabilities	**737**	818
	4,429	2,900
Less valuation allowance	**(171)**	(152)
	$ 4,258	$ 2,748
Future income tax liabilities:		
Research and development expenses deducted for accounting in excess of tax purposes	**$ (262)**	$ (208)
Capital assets	**(9,411)**	(9,061)
	$ (9,673)	$ (9,269)
Net future income tax liability	**$ (5,415)**	$ (6,521)

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

Management considers the scheduled reversals of future income tax liabilities, the character of the income tax asset, and the tax planning strategies in making this assessment. Management would record a valuation allowance against the future income tax assets if the more likely than not realization criterion is not met.

The Company has losses of $6.0 million available to offset future income taxes in the US. These net operating losses have a 20 year carry forward.

NOTE 12 COMMITMENTS, CONTINGENCIES AND RELATED PARTY TRANSACTIONS

Commitments

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

	Equipment	Premises	Total
2008	$ 255	$ 155	$ 410
2009	231	115	346
2010	79	90	169
2011	3	90	93
2012	1	53	54
Thereafter	-	-	-
Total	$ 569	$ 503	$ 1,072

In the normal course of business, the Company has inventory purchase commitments for its rubber compounding and AEP segments of $6.6 million.

Related Party Transactions

Included in the operating lease commitments is a rental agreement for corporate office space between the Company and a company controlled by the Chairman of the Company. The lease provides for monthly payments equivalent to an annual rental of $90,000 and expires in August 2012. The lease provides for the purchase of the building should certain events occur which are beyond the control of the Chairman. The annual rental of $90,000 per annum approximated fair market rental value at the inception of the lease in 2002.

During the year, the Company paid annual dues relating to a facility in South Carolina of approximately $21,500 ($22,000 in 2006) to a company in which the Chairman is an officer.

The Company provided a $0.1 million share purchase loan to an employee due June 15, 2009 bearing interest at 5% annually with full recourse and is included in the balance sheet under the caption “other assets”.

Government assistance

The Company has entered into an agreement with Investment Quebec to contribute 10% or up to $0.5 million for eligible capital expenditures over a 2 year period. The agreement lists certain conditions, where if breached, would require the advanced funds to be repaid, with interest at 7.5%. Under the terms of the agreement, the Company has applied to recover $0.1 million ($0.2 million in 2006) against capital expenditures in 2007 and the capital assets were adjusted accordingly.

NOTE 13 POST RETIREMENT BENEFITS

The Company maintains an unfunded supplementary employee retirement plan for certain executives “pension plan” and provides post retirement life insurance benefits to eligible retirees “other benefit plan”.

	Pension plan		Other benefit plan	
	2007	2006	**2007**	2006
The significant assumptions used are as follows (weighted-average):				
Accrued benefit obligation:				
Discount rate	**5.50%**	5.00%	**5.50%**	5.25%
Rate of compensation increase	**N/A**	N/A	**-**	-
Benefit costs for the years:				
Discount rate	**5.50%**	5.00%	**5.50%**	5.25%
Rate of compensation increase	**N/A**	N/A	**-**	-
Accrued benefit obligation				
Balance, beginning of year	**$ 1,868**	$ 1,676	**$ 468**	$ 640
Reduction of accrued benefit obligation	**-**	-	**-**	(168)
Current service cost	**109**	104	**3**	3
Interest cost	**99**	88	**24**	24
Benefits paid	**-**	-	**(24)**	(31)
Actuarial (gains) losses	**(145)**	-	**(23)**	-
Balance, end of year	**1,931**	1,868	**448**	468
Unamortized net actuarial loss	**103**	286	**-**	-
Unamortized transitional obligation	**101**	157	**210**	241
Accrued benefit liability	**$ 1,727**	$ 1,425	**$ 238**	$ 227

	Pension plan		Other benefit plan	
	2007	2006	**2007**	2006
The elements of the Company’s defined benefit plan costs recognized in the year are as follows:				
Current service cost, net of employees’ contributions	**$ 109**	$ 104	**$ 3**	$ 3
Interest cost	**99**	88	**24**	24
Employee future benefits costs before adjustments	**208**	192	**27**	27
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between recognized actuarial (gains) losses and actual actuarial (gains) losses on the accrued benefit obligation for the year	**38**	41	**10**	11
Amortization of the transitional obligation	**56**	55	**7**	7
Other	**-**	-	**(33)**	(30)
Recognized defined benefit costs	**$ 302**	$ 228	**$ 11**	$ 15

NOTE 14 SEGMENTED INFORMATION

The Company is comprised of three significant business segments, each of which has a separate operational management. The Rubber Compounding segment produces custom rubber compounds used in various industrial applications. The Railway Products segment designs and distributes railway fastening products. The AirBoss Engineered Products segment ("AEP") produces rubber protective products, including footwear and gloves, and further processed rubber compounds.

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 within North America with respect to its rubber compound and railway products and globally with respect to its rubber protective products, and has production facilities in Canada and the United States.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. The Company evaluates performance of its operating segments based on earnings from operations.

One customer represented 26.4% and 30.0% of total sales in 2007 and 2006 respectively. Five customers represented 49% and 54.3% of sales in 2007 and 2006 respectively.

	Sales excluding inter-company				
	Canada	US	Other	Total	Inter-Company
2007					
Rubber Compounding Operations	75,301	86,538	1,695	163,534	1,890
AEP and Other	8,736	34,364	2,740	45,840	6,598
Railway Products	-	16,621	1,097	17,718	-
Total	84,037	137,523	5,532	227,092	8,488
2006					
Rubber Compounding Operations	78,743	92,146	642	171,531	2,110
AEP and Other	7,476	27,397	2,589	37,462	10,112
Railway Products	-	19,616	2,020	21,636	-
Total	86,219	139,159	5,251	230,629	12,222

	Rubber Compounding Operations	AEP & Other	Railway Products	Corporate and Intercompany Eliminations	Total
2007					
Sales	165,424	52,438	17,718	(8,488)	227,092
Cost of sales	150,710	45,581	15,566	(8,488)	203,369
	14,714	6,857	2,152	-	23,723
Operating expenses	8,921	6,292	1,516	2,449	19,178
	5,793	565	636	(2,449)	4,545
Provision for income taxes					(431)
Net income					4,114
Assets employed					
Canada	68,248	45,053	-	2,434	115,743
US	17,297	260	5,236	-	22,793
Total	85,545	45,313	5,236	2,434	138,536
Purchase of capital assets	3,176	1,198	263	-	4,637
Amortization of capital assets and other assets	2,896	1,481	348	100	4,825
Goodwill	7,944	7,182	1,494	-	16,620

Notes to Consolidated Financial Statements (cont’d)

	Rubber Compounding Operations	AEP & Other	Railway Products	Corporate and Intercompany Eliminations	Total
2006					
Sales	173,641	47,574	21,636	(12,222)	230,629
Cost of sales	155,382	39,526	17,736	(12,222)	200,422
	18,259	8,048	3,900	-	30,207
Operating Expenses	11,250	6,488	1,845	2,279	21,862
	7,009	1,560	2,055	(2,279)	8,345
Provision for income taxes					(1,630)
Net income from continuing operations					6,715
Assets employed					
Canada	75,430	41,378	-	1,073	117,881
US	15,291	-	5,818	-	21,335
Total	90,721	41,604	5,818	1,073	139,216
Purchase of capital assets	5,219	1,332	390	15	6,956
Amortization of capital assets and other assets	2,591	1,499	313	310	4,713
Goodwill	7,944	7,182	1,494	-	16,620

NOTE 15 CHANGES IN NON-CASH WORKING CAPITAL

December 31	**2007**	2006
Accounts receivable	**$ (3,938)**	$ (4,007)
Inventories	**8,773**	(8,560)
Prepaid expenses	**(468)**	(201)
Accounts payable and accrued liabilities	**958**	(301)
Income taxes payable	**(4,529)**	430
Total	**$ 796**	$ (12,639)

NOTE 16 FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Company’s financial instruments consist of accounts receivable, restricted funds, demand loan, accounts payable and accrued liabilities, term loan and other debt. The fair values of accounts receivable, restricted funds, demand loan, accounts payable, and accrued liabilities, as recorded in the consolidated balance sheets approximate their carrying amounts due to the short-term maturities of these instruments. The term loan reflects current market interest rates therefore the carrying amount approximates fair value. The fair value of the other debt is not readily determinable. Forward exchange contract to sell US $5 million at an average rate of $0.9844 has been recorded at its fair market value of $35,000 and have been recorded in other assets.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of trade accounts receivable. A majority of the Company’s trade receivables are derived from sales to retailers, manufacturers and to original equipment manufacturers and distributors. The Company performs ongoing credit evaluations of its customers’ financial condition and limits the amount of credit extended when deemed necessary. The Company maintains reserves for potential credit losses, and any such losses to date have been within management’s expectations.

Corporate Information

BOARD OF DIRECTORS

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

Robert L. Hagerman
President and CEO, AirBoss of America Corp.
Aurora, Ontario

Mary Matthews (1) (2) (3)
Partner, Magna Partners Ltd.
Toronto, Ontario

Robert L. McLeish (1) (2) (3)
Toronto, Ontario

Brian A. Robbins (1)
President and Chief Executive Officer
Exco Technologies Limited
Aurora, Ontario

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

Alan J. D. Watson
Head of Securities, Europe
Macquarie Capital (Europe) Limited
East Sussex, UK

SOLICITORS

Davies Ward Phillips & Vineburg LLP
Toronto, Ontario

AUDITORS

KPMG LLP
Toronto, Ontario

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services, Inc.
Toronto, Ontario

Stock Symbol Toronto Stock Exchange: BOS
Web Site address: www.airbossofamerica.com
Email address: info@airbossofamerica.com

Our Annual Meeting is Thursday, May 15, 2008 at 4:30 pm at the AirBoss corporate office in Newmarket, Ontario

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of Corporate Governance Committee

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AirBoss of America Corp.

OFFICES

Canada

NEWMARKET, ONTARIO
AirBoss of America Corp.

Corporate Office:
16441 Yonge Street
Newmarket, Ontario, Canada L3X 2G8
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Facsimile: 905-751-1101

Chairman:
P. G. (Gren) Schoch

President and Chief Executive Officer:
R. L. (Bob) Hagerman

Vice-President Finance and CFO:
Stephen W. Richards

KITCHENER, ONTARIO
AirBoss Rubber Compounding

Address:
101 Glasgow Street
Kitchener, Ontario, Canada N2G 4X8
Telephone: 519-576-5565
Facsimile: 519-576-1315

Executive Vice-President:
Robert Dodd

Vice-President Sales and Marketing:
John Tomins

SUBSIDIARIES

QUÉBEC
AirBoss Produits d'Ingénierie Inc./AirBoss Engineered Products Inc.

Address:
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Acton-Vale, Québec, Canada J0H 1A0
Telephone: 450-546-2776
Facsimile: 450-546-3735

Director of Manufacturing:
Yvan Ambeault

Divisional President, AirBoss-Defense Products:
Earl Laurie

Sales Manager – Industrial Products:
Marcel Courtemanche

United States

NORTH CAROLINA
AirBoss Rubber Compounding (NC), Inc.

Address:
500 AirBoss Parkway
Scotland Neck, North Carolina, U.S.A. 27874
Telephone: 252-826-4919
Facsimile: 252-826-4994

General Manager:
Robert Dodd

MISSOURI
AirBoss Railway Products, Inc.

Address:
9237 Ward Parkway, Suite 206,
Kansas City, Missouri, U.S.A. 64114
Telephone: 816-822-7599
Facsimile: 816-822-0150

President:
Robert (Bob) Magnuson

Vice-President:
Jose Mediavilla

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AirBoss of America Corp.