'03

AIRBOSS OF AMERICA CORP.

2003 FIRST QUARTER INTERIM REPORT

For the three months ended March 31, 2003

(thousands, except per share amounts)	2003	2002
Net Sales	$ 48,516	$ 43,708
Gross Margin	7,245	7,288
Earnings Before Interest, Taxes & Amortization (EBITDA) **(Note 1)**	3,009	3,090
Interest	673	761
Income Before Income Taxes	1,001	1,287
Net Income	672	754
Earnings Per Share – Basic	$ 0.03	$ 0.03
– Diluted	0.03	0.03
EBITDA Per Share (weighted) **(Note 1)**	$ 0.13	$ 0.14
Cash Flow	$ 1,950	$ 2,294
Cash Flow Per Share (weighted)	$ 0.09	$ 0.10
Common Shares Outstanding (million) – Basic	22.5	22.5
– Weighted	23.1	22.5

Note 1

The Company discloses EBITDA, a financial measurement used by interested parties. EBITDA does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures presented by other issuers. EBITDA is not a measure of performance under GAAP and should not be considered in isolation or as a substitute for net income under GAAP.

Three Month Period ended March 31	2003	2002
Income Before Income Taxes	$ 1,001	$ 1,287
Interest	673	761
Amortization	1,335	1,042
EBITDA	$ 3,009	$ 3,090

LETTER TO SHAREHOLDERS

In the first quarter of 2003 the Company was successful in achieving its goal of continued growth, during a period of continued weakness in North American markets. This growth has yet to impact favourably on profitability due to the effects of a declining U.S. dollar and significant increases in key raw materials prices. The effect of the sudden exchange rate shift was to reduce earnings for the first quarter of 2003 by $1.2 million pre-tax, or $0.03 per share after-tax, despite an 11% increase in sales.

AIRBOSS RUBBER COMPOUNDING

The rubber compounding division was most affected by the overall increase in raw material prices and the increase in the Canadian dollar, which devalued U.S. dollar revenues. Sales volumes increased by 15% and sales dollars increased 10% over the same period in 2002. Gross margins decreased as U.S. dollar-denominated raw materials, which represent over 80% of all materials purchased, were written down to reflect the exchange rate change. On an ongoing basis the U.S. dollar content of manufacturing costs nearly equals sales which are billed in U.S. dollars under the current customer mix. Accordingly, the division should return to higher profitability once the exchange rate between the Canadian and U.S. dollar stabilizes.

Raw materials increased significantly in the quarter with key materials such as natural rubber increasing by 15%, carbon black by 12% and synthetic rubber by 25%. There is a time lag experienced in passing along these increases to customers and this has also impacted on margins.

Natural rubber has begun to retreat from peak pricing levels and the Company expects that with the decline in oil prices that carbon black and synthetic rubber may follow suit in the late second or early third quarter.

These events have placed a premium on the ability of our technical personnel to develop more cost effective compounds utilizing emerging sources of foreign supply. This ability was a key in our success in increasing volumes in the current environment.

AIRBOSS-ACTON

Sales for the quarter increased by 30% to $16 million as compared to the same period in 2002. This is a result of significant increases in sales of our military protective wear products such as Nuclear, Biological and Chemical (NBC) overshoes, gas masks and gloves. Sales of these products are expected to double in 2003 with the introduction of new products such as gas masks, which began shipping late in the first quarter. Sales to both the U.S. military and to western Europe also contributed to strong first quarter revenues.

The Company continues to maintain its position as a leader in NBC technology and has entered into an agreement with the Canadian government to jointly develop future NBC compounds. AirBoss-Acton has also won a contract to supply the U.S. military with NBC overshoes. Once samples are approved, production under this contract is scheduled to commence in early 2004.

The Acton industrial rubber products division offset declining demand, caused by weak winter recreational vehicle sales in the mid-west, with sales to new customers. This division has been required to deal with the same major increases in raw materials and the devaluation of the U.S. dollar as our rubber compounding operations has in the first quarter.

AIRBOSS RAILWAY PRODUCTS

Although sales for the first quarter of 2003 were slightly less than in 2002 as a result of track construction scheduling by the major railways, the division still anticipates that by the end of the year sales will be greater than last year. Sales of railway clips continue to be strong and key product development projects have advanced to the field testing stage.

A February 2003 U.S. Appeals Court ruling has vacated both the judgement and the injunction that were awarded in 2001 against AirBoss pending the determination of the validity of the patent. AirBoss is pleased with this ruling and is confident of success in future legal proceedings.

FINANCIAL

Net working capital remained constant at $18 million as compared to December 31, 2002. There were significant increases in accounts receivable balances at March 31 as a result of the increased sales generally and particularly to the military which is traditionally slower paying. This resulted in an increased utilization of our credit line.

OUTLOOK

Increases in sales and major breakthroughs in military markets have been overshadowed in the short-term with rapid changes in foreign exchange and material price increases. The Company, while exposed with significant U.S. dollar assets, will be able to respond with minimal effect on margins in its key compounding business once rates become stabilized.

Emphasis in the second quarter will be placed on improving the manufacturing efficiencies of new military products, such as gas masks, to offset the impact of foreign exchange issues.

Overall profitability will benefit from a reversal of rapid material cost increases which should eventually result from recent declines in oil prices and continued weak demand in the United States. While increasing sales at the current pace continues to be a challenge in the present economic climate, we are well positioned to do so in both rubber compounding and military products. Stable exchange rates and an improvement in market conditions are not forecasted until the last half of the year but, once they occur, they will allow the growth in compounding and military products to improve the bottom line.

R.L. Hagerman
President and CEO
May 7, 2003

SALES

2003 compared to 2002 – Sales for the first quarter ended March 31, 2003 increased 11% from $43.7 million to $48.5 million. AirBoss-Acton sales increased 30% due to increased demand for military footwear, gloves and gas masks, while AirBoss Rubber Compounding volumes to existing and new customers increased by 10%. The Railway division has maintained its US dollar-denominated sales but, due to the strengthening of the Canadian dollar, recorded a decline in the Canadian equivalent.

2002 compared to 2001 – Sales for the first quarter ended March 31, 2002 increased 16% from $37.5 million to $43.7 million. Approximately two-thirds of the dollar volume gain occurred in AirBoss Rubber Compounding, which replaced production fees for tire manufacturers, who supply their own materials, with rubber compound revenues from new and existing customers who do not supply their own materials. Sales of AirBoss Railway Products and AirBoss-Acton increased $1.6 million, primarily from the sales of rail fastening clips, and, $0.5 million from industrial products, respectively.

GROSS MARGINS

2003 compared to 2002 – Gross margins for the first quarter ended March 31, 2003 declined from 17% of sales to 15%. The decline occurred almost exclusively in the AirBoss Rubber Compounding division. Despite increased sales, the rapid decline of the US dollar resulted in a write-down of US dollar-purchased raw materials of approximately $0.7 million, which was charged to cost of sales. The foreign exchange impact was exacerbated by increases in rubber and carbon black costs, which could not be passed on to customers in the same timeframe. Gross margins in the AirBoss-Acton division improved with the volume of military sales but were also negatively impacted by exchange on US military sales. Railway division gross margins remained steady in its base US currency but declined due to the depreciation of the US dollar.

2002 compared to 2001 – Gross margins for the three months ended March 31, 2002 of $7.3 million increased by $0.7 million or 10% over the same period in 2001. Gross margin percentages declined as a result of the loss of rubber manufacturing fees earned from tire manufactures, who supply their own materials, and product mix changes in AirBoss Railway.

EXPENSES

2003 compared to 2002 – Operating expenses for the quarter ended March 31, 2003 increased 1.3%. The increases stem from increased sales and distribution costs due to increased volumes.

2002 compared to 2001 – Operating expenses for the quarter ended March 31, 2002 increased $0.3 million from $4.9 million to $5.2 million. The increase is attributed to additional shipping costs associated with a change in rubber compounding customer mix and increased product research to sustain and grow the customer base.

INTEREST EXPENSE

2003 compared to 2002 – Interest expense for the first quarter fell from $761,000 to $673,000 as the result of the repayment of higher priced long-term debt while additional funding needs were fulfilled with lower priced operating loans.

2002 compared to 2001 – Interest expense declined $179,000 in the first quarter of 2001 over the same period in 2002 due to reduced interest rates and working capital reductions.

LIQUIDITY AND CAPITAL RESOURCES

2003 compared to 2002 – Operating cash flow for the quarter before changes in working capital declined marginally primarily due to the reduction of cash tax timing differences. Non-cash working capital, accounts receivable, in particular, increased $3.5 million because of the increased sales volumes and their skew towards March.

Capital expenditures have been maintained at levels comparable to 2002 and are expected to maintain the same quarterly pace. Expenditures continue to focus upon upgrades to maintain and improve service levels, efficiency and quality.

The effective income tax rate for the three-month period ended March 31, 2003 was affected by non-income based taxes, like the federal large corporations tax, and US tax differentials. Income tax rates for the period were as follows:

	2003	2002
Canadian tax rate net of manufacturing and processing deduction	**32.4%**	33.0%
Federal large corporations tax	**5.3%**	4.2%
U.S. tax differentials	**1.1%**	4.1%
Other	**(5.9)%**	0.1%
	32.9%	41.4%

The Company expects to fund its cash requirements through internal sources.

2002 compared to 2001 – Cash flow from operations increased to $2.3 million from $1.9 in 2001. The growth in 2002 sales was comprised of customers who did not supply their own materials. Along with this the need to buy inventory ahead to mitigate rising prices raised inventory levels. Subsequent softening of raw material prices and product rationalization, undertaken in AirBoss-Acton, stemmed the growth in inventories.

Capital expenditures were comprised of a blend of maintenance, cost reduction and new product projects. The capital budget was fully funded by internal cash flow.

CONSOLIDATED BALANCE SHEETS

(THOUSANDS) (UNAUDITED)

	March 31, 2003	December 31, 2002
ASSETS		
Current assets:		
Accounts receivable	$ 32,047	$ 27,184
Inventories	26,293	27,026
Prepaid expenses	783	1,118
	59,123	55,328
Capital assets	54,075	54,088
Goodwill	16,620	16,620
Other assets	2,204	2,240
	$ 132,022	$ 128,276
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand loan	$ 15,577	$ 11,944
Accounts payable and accrued liabilities	20,575	20,756
Income taxes payable	1,067	602
Current portion of term loan and other debt	3,777	3,777
	40,996	37,079
Term loan	22,750	23,500
Other debt	470	506
Future income tax liability	10,146	10,257
Accrued post retirement benefit liability	669	615
Shareholders' equity:		
Share capital	38,393	38,393
Contributed surplus	143	143
Retained earnings	18,455	17,783
	56,991	56,319
	$ 132,022	$ 128,276

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

(THOUSANDS EXCEPT PER SHARE AMOUNTS) (UNAUDITED)		Three Month Period ended March 31	
		2003	2002
SALES		$ 48,516	$ 43,708
Cost of sales		41,271	36,420
Gross margin		7,245	7,288
EXPENSES			
General and administrative		2,241	2,324
Selling, marketing and distribution		2,630	2,513
Product research		434	402
Total operating expenses		5,305	5,239
Income from operations		1,940	2,049
Interest expense	– Demand loans	(149)	(117)
	– Long-term debt	(524)	(644)
Foreign exchange loss		(266)	(1)
Income before income taxes		1,001	1,287
Provision for income taxes		329	533
Net income		672	754
Retained earnings, beginning of period		17,783	14,226
Retained earnings, end of year		$ 18,455	$ 14,980
Net income per share	– Basic	$ 0.03	$ 0.03
	– Diluted	$ 0.03	$ 0.03

CONSOLIDATED STATEMENTS OF CASH FLOWS

(THOUSANDS) (UNAUDITED)	Three Month Period ended March 31 2003	2002
CASH PROVIDED BY (USED IN)		
Operating Activities:		
Net income	$ 672	$ 754
Items not affecting cash:		
Amortization	1,335	1,042
Future income taxes	(111)	448
Post retirement benefits expense	54	50
	1,950	2,294
Changes in non-cash operating working capital balances		
Accounts receivable	(4,864)	(783)
Inventories	733	458
Income taxes payable	465	87
Prepaid expenses	335	48
Accounts payable and accrued liabilities	(181)	(276)
	(3,512)	(466)
	(1,562)	1,828
Investing Activities:		
Purchase of capital assets	(1,187)	(1,177)
Purchase of other assets	(99)	(128)
	(1,286)	(1,305)
Financing Activities:		
Net increase (decrease) in demand loan	3,633	547
Repayment of term debt	(750)	(750)
Payment of other debt	(35)	(320)
	2,848	(523)
Increase (decrease) in cash for the period	–	–
Cash and short-term deposits at the beginning of the period	–	–
Cash and short-term deposits at the end of the period	$ –	$ –
Interest paid during the period	$ 742	$ 858
Income taxes remitted (recovered) during the period	(83)	53

NOTE 1

The Consolidated Interim Financial Statements include the accounts of the Company, its wholly owned subsidiaries and a proportionate share of joint ventures (collectively, the "Company"). These Consolidated Financial Statements do not contain all disclosures required by generally accepted accounting principles ("GAAP") and should be read in conjunction with the audited Consolidated Financial Statements including the notes thereto for the year ended December 31, 2002.

These Consolidated Interim Financial Statements follow the same accounting policies and methods of application as the audited Consolidated Financial Statements for the year ended December 31, 2002.

NOTE 2 – STOCK-BASED COMPENSATION

During the quarter ended March 31, 2003, the Company issued stock options to certain employees. The fair value of options issued was determined using the Black-Scholes option pricing model. The following assumptions were applied:

	Three Months Ended March 31, 2003
Risk-free interest rate	4.2%
Dividend yield	0%
Volatility factor of market price of Company's shares	31%
Weighted average grant date fair value of options issued	$ 2.59
Weighted average expected option life (years)	5

For purposes of pro-forma disclosures, the estimated fair value of the options is recognized in income in the period granted as they vest when granted. For the three months ended March 31, 2003 the Company's pro-forma earnings are $312 and basic and diluted earnings per share are $0.01. For additional information regarding the Company's option plan refer to Note 9 in the annual consolidated financial statements.

NOTE 3 – SEGMENTED INFORMATION

2003	SALES EXCLUDING INTER-COMPANY Canada	U.S.A.	Other	Total	Inter-Company	Contribution
Rubber compounding operations	$ 11,436	$ 13,202	$ 59	$ 24,697	$ 1,392	$ 722
Engineered products						
– Railway and Distribution	24	7,565	66	7,655	1	134
– Acton and other	6,859	8,579	726	16,164	1,651	212
Subtotal	$ 18,319	$ 29,346	$ 851	$ 48,516	$ 3,044	1,068
Unallocated administrative costs						67
Income before income taxes						1,001
Provision for income taxes						329
Net income						$ 672

	Rubber Compounding Operations	ENGINEERED PRODUCTS Railway & Distribution	Acton & Other	Unallocated	Total
Assets employed – Canada	$ 64,500	$ –	$ 56,337	$ 1,121	$ 121,958
– USA	–	10,064	–	–	10,064
– Total	$ 64,500	$ 10,064	$ 56,337	$ 1,121	$ 132,022
Purchase of capital assets	$ 467	$ 32	$ 679	$ 9	$ 1,187
Amortization – Capital and other assets	$ 467	$ 140	$ 683	$ 45	$ 1,335

2002	SALES EXCLUDING INTER-COMPANY Canada	U.S.A.	Other	Total	Inter-Company	Contribution
Rubber compounding operations	$ 9,657	$ 12,711	$ 67	$ 22,435	$ 1,197	$ 1,643
Engineered products						
– Railway and Distribution	108	8,441	46	8,595	–	461
– Acton and other	4,528	7,156	994	12,678	1,159	(191)
Subtotal	$ 14,293	$ 28,308	$ 1,107	$ 43,708	$ 2,356	1,913
Unallocated administrative costs						626
Income before income taxes						1,287
Provision for income taxes						533
Net income						$ 754

	Rubber Compounding Operations	ENGINEERED PRODUCTS Railway & Distribution	Acton & Other	Unallocated	Total
Assets employed – Canada	$ 56,537	$ –	$ 63,495	$ 1,063	$ 121,095
– USA	–	10,261	–	–	10,261
– Total	$ 56,537	$ 10,261	$ 63,495	$ 1,063	$ 131,356
Purchase of capital assets	$ 635	$ 3	$ 530	$ 9	$ 1,177
Amortization – Capital and other assets	$ 409	$ 111	$ 496	$ 26	$ 1,042

AIRBOSS OF AMERICA
CORP.

OFFICES

Canada

NEWMARKET	**AirBoss of America Corp.**
Corporate Office:	16441 Yonge Street, Newmarket, Ontario, Canada L3X 2G8
Telephone:	905-751-1188
Facsimile:	905-751-1101
Chairman:	P.G. (Gren) Schoch
President and Chief Executive Officer:	R.L. (Bob) Hagerman
Vice-President Finance:	Axel G. Breuer
Investor Relations:	Tracey L. Gauley
KITCHENER	**AirBoss Rubber Compounding**
Address:	101 Glasgow Street, Kitchener, Ontario, Canada N2G 4X8
Telephone:	519-576-5565
Facsimile:	519-576-1315
Divisional President:	Ben Stevens

SUBSIDIARIES

MONTREAL	**AirBoss-Acton**
Address:	881 Landry, Acton Vale, Québec, Canada J0H 1A0
Telephone:	450-546-2776
Facsimile:	450-546-3735
President:	François Soucy
Sales Manager - Commercial Footwear:	Pierre Bernier
Military Products Manager:	Earl Laurie
Sales Manager - Industrial Products:	Marcel Courtemanche

United States

MICHIGAN	**AirBoss Polymer Products, Corporation**
Address:	200 Veterans Boulevard, South Haven, Michigan, U.S.A. 49090
Telephone:	269-637-6356
Facsimile:	269-637-8955
President:	Gerald M. (Jerry) Van Vlack
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:	José Mediavilla

www.**airbossofamerica**.com

Designed and produced by Imagine That! Communications Corp.