From chemistry, to compound, to application

Q1

AirBoss of America Corp. First Quarter Interim Report 2008

Contents

‘08

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

Rubber Compounding

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

Military and Industrial Products

Manufacturer of protective wear for military and first response applications. Manufactures extruded, calendered, cushion gum, and compression moulded rubber products.

Railway Products

One of two companies to design, market, and service a complete line of railway fastening products to major North American rail lines to support heavy haulage requirements.

Sales for the three-month period ended March 31, 2008 decreased by $0.7 million or 1.1% to $59 million compared to 2007. The declining US dollar had the effect of reducing sales expressed in Canadian dollars by $7.5 million.

AirBoss-Defense

Sales for the first quarter were ahead of plan and represent a 51% increase over 2007 at $9.8 million. Most of this increase is attributable to an increase in sales of Chemical Biological Radiological and Nuclear ("CBRN") protective wear and rubber repair parts and supplies for military vehicles. This increase in demand for these products should continue to be strong for the remainder of the year.

CBRN products accounted for 63% of sales for the first quarter and this should increase as production of the C-4 gas masks commences midway through the second quarter. Initial production will be to fill orders in the First Response market although significant military orders are also anticipated resulting in production requirements for the remainder of the year.

Operating income of the division, AEP, increased by over 50% to approximately $1.1 million as a result of the increased volumes and greater production efficiency. This number was adversely affected by the higher Canadian dollar as 85% of sales are denominated in US dollars and many are subject to long term contracts.

AirBoss Rubber Compounding

Sales volumes expressed in pounds increased by 2% compared to the previous year to almost 41 million pounds or $ 41.3 million. Sales increases in the defense, major tire and mining business sectors more than offset the decreases in belting and solid tires. Volumes to our top ten customers increased by 4% for the period. This reverses the market softness that was experienced in the last quarter of 2007. The Company expects sales volumes to continue to increase in the second quarter of 2008.

Raw material inflation accelerated during the quarter as a result of supply shortages, oil price increases, currency issues and increased Asian consumption. Synthetic rubber prices increased by 30% in the quarter as a result of severe supply shortages. Most domestic suppliers of SBR have placed their customers on allocation. This volatility will continue for most of the year with further increases of 13% being experienced in April alone.

While synthetic rubber was the most severely affected, natural rubber also increased in price by 15% and carbon black by 7%. As a result of maintaining supply sources worldwide, AirBoss has been fortunate to be able to keep customers supplied with product although pricing is difficult, particularly in industries where customers have difficulty dealing with this level of raw material inflation. Margins for the quarter were affected as it was necessary to institute mid-period price increases to secure supply.

Operating results were also affected by exchange fluctuations. The Company hedges raw material inventories which are purchased in US dollars with offsetting US denominated debt. As a result of the rapid turnover of these inventories the average exchange rate at purchase is usually close to the month-end rate used to value the debt. A large month end dip in the Canadian dollar resulted in a spread of nearly 3% between the average rate for the month used to value inventories and the month end rate. The negative impact of this anomaly may reverse over the month subsequent to quarter end.

To Our Shareholders (cont'd)

Efficiency improvements at Scotland Neck are anticipated in the second quarter as training has been completed for the third shift and the source of the electrical surge problem is corrected.

Production was excellent at the industrial rubber products division in Acton-Vale, Québec as the increased volume from military products increased plant utilization.

AirBoss Railway Products

Trials are scheduled in the second quarter on a production version of the new Tie-Captive fastening system. We expect these trials to proceed smoothly and anticipate an increased level of business when completed successfully.

Outlook

The sales outlook for the second quarter remains strong in both AirBoss-Defense and in Rubber Compounding. The defense products business is driven by demand for our CBRN products which will increase as production of the C-4 Canadian gas mask begins in May.

The Rubber Compounding division is starting the second quarter with another strong sales month that represents an increase in volume over the previous year. We remain optimistic for a continued strong sales year.

Major raw material supplies and customer pricing are secured for the second quarter and we are currently working on sourcing the remaining 6 months of the year. Matching future material costs and customer pricing during periods of raw material price volatility and improving production efficiency in Scotland Neck are keys to providing improved margins in this business the remainder of the year.

The second quarter will continue the trend of higher sales volumes in the Company's core rubber businesses despite challenging economies and volatile material costs.

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") for the three-month period ended March 31, 2008 has been prepared as of May 5, 2008 and should be read in conjunction with the Unaudited Consolidated Financial Statements and Notes prepared in accordance with Canadian generally accepted accounting principles. The quarterly consolidated financial statements and any amounts shown in this MD&A were not reviewed or audited by our external auditors. All tabular dollar amounts are shown in thousands of Canadian dollars unless otherwise specified. 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 22.

Highlights

Selected Financial Information

- 34% sales increase in AEP due to AirBoss-Defense sales
- Other markets affected by US dollar and softening economy
- Margins affected by $1 million from strengthening Canadian dollar

Three months ended March 31 ($ thousands, except per share amount)	**2008**	2007
Financial results:		
Net sales	**58,978**	59,655
Net income	**972**	1,150
Net income per share		
- Basic and Diluted	**0.04**	0.05
EBITDA (non-GAAP financial measure)	**3,576**	3,687
Operating cash flow provided by (used in) operations	**1,551**	(6,710)
Capital expenditures	**571**	316
Dividends declared per share	**-**	-

($ thousands)	**March 31, 2008**	December 31, 2007
Financial Position:		
Total assets	**144,208**	138,536
Demand loan	**20,938**	20,893
Term loan and other debt	**17,410**	17,444
Shareholders' Equity	**67,874**	66,727
Outstanding shares	**23,805**	23,805

Non-GAAP Financial measure

This MD&A is based on reported income in accordance with Canadian generally accepted accounting principles (“GAAP”) and on the following non-GAAP financial measure, from continuing operations:

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

This non-GAAP measure is directly derived from the interim consolidated financial statements, but do not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures presented by other issuers. The Company discloses EBITDA, a financial measurement used by interested parties and investors to monitor the ability of an issuer to generate cash from operations for debt service, financing working capital and capital expenditures and pay dividends. EBITDA is not a measure of performance under GAAP and should not be considered in isolation or as a substitute for net income under GAAP.

A reconciliation of this measure, is presented below:

Three months ended March 31 ($ thousands)	**2008**	2007
EBITDA:		
Income before income taxes	**1,601**	1,753
Net financing interest expense	**697**	780
Depreciation and amortization	**1,278**	1,154
EBITDA	**3,576**	3,687

RESULTS OF OPERATIONS

SALES

Sales revenues decreased 1.2%. Translation of US denominated sales against a weaker US dollar accounted for $7.5 million lower sales. The reduction in sales was mitigated by higher sales volumes in Rubber Compounding and AirBoss-Defense.

			Engineered Products		
($ thousands)		Rubber Compounding	AEP & Other	Railway Products	Total
Net sales	**2008**	**41,334**	**13,751**	**3,893**	**58,978**
	2007	44,876	10,287	4,492	59,655
Increase (decrease) $		(3,542)	3,464	(599)	(677)
Increase (decrease) %		(7.9)%	33.7%	(13.3)%	(1.1)%

Rubber Compounding

Sales expressed in Canadian dollars decreased by $3.5 million or 7.9% compared to the same period in 2007. A weaker US dollar accounted for $5.6 million of the reduction in revenue. Higher unit sales volume and higher US dollar average sales prices partially offset the effects of exchange.

Sales volumes expressed in pounds increased by 2% compared to 2007. Volume increases experienced in the defense, major tire and mining sectors exceeded declines in belting and solid tires. We expect these sales trends to continue into the second quarter.

AirBoss Engineered Products

Sales increased by $3.5 million or 33.7% compared to the first quarter of 2007. AirBoss-Defense sales increased by $3.4 million due to the demand for Chemical, Biological, Radiological and Nuclear (“CBRN”) protective wear as well as rubber military vehicle repair items. CBRN sales are expected to continue to be strong throughout the year as the Company will begin production of the C-4 gas mask in May 2008. The decline in the US dollar had the effect of reducing sales by $1.3 million in this division.

Railway Products

Sales decreased by $0.6 million for the quarter ended March 31, 2008 compared to the same period in 2007. Most of this decrease resulted from a weaker US dollar.

GROSS MARGIN

Gross margin for the quarter ended March 31, 2008 was $5.7 million, a decrease of $0.3 million compared to 2007 primarily attributable to rising raw material costs and the strengthening of the Canadian dollar. The percentage margin also decreased from 10.1% to 9.7%.

($ thousands)		Rubber Compounding	Engineered Products: AEP & Other	Engineered Products: Railway Products	Total
Gross Margin	**2008**	**2,539**	**2,748**	**406**	**5,693**
	2007	3,600	1,847	550	5,997
Increase (decrease) $		(1,061)	901	(144)	(304)
% net of sales	**2008**	**6.1**	**20.0**	**10.4**	**9.7**
	2007	8.0	17.9	12.3	10.1

Rubber Compounding

The decrease in gross margin in 2008 was attributable to the rising costs of raw materials and a very competitive market which makes it difficult to always recover these cost increases seamlessly. During the quarter, synthetic rubber prices increased by 30%, natural rubber by 10% and carbon black by 7%. Rising material costs will continue into the second quarter due to world-wide supply shortages of synthetic rubber which may not be corrected until late in the year.

Production efficiencies at the Scotland Neck plant were affected by training costs related to adding a third shift and major disruptions caused by power surges which are being corrected.

Gross margins were reduced $0.1 million by the Canadian dollar strengthening relative to the same quarter in 2007.

AirBoss Engineered Products

Gross margin at AEP had increased by $0.9 million compared to the first quarter of 2007. US dollar purchased raw materials account for a lesser percentage of manufactured cost in this division compared to Rubber Compounding. Accordingly, the increase in the Canadian dollar has a more significant impact on margins than it does in Rubber Compounding. Higher CBRN product sales would have contributed approximately $0.9 million additional gross margin had the average exchange rate for the period remained the same as it was in the first quarter of 2007.

Railway Products

Gross margin decreased by $0.1 million and is 9.7% of sales in 2008 compared to the previous year due to converting the US operations at a weaker US exchange rate. Product mix had a negligible impact.

EXPENSES

Operating expenses, including other income and interest, for the first quarter ended March 31, 2008 were $0.2 million lower than in 2007. Exchange gains and other expenses generated in head office were offset in the compounding operation.

($ thousands)		Rubber Compounding Operations	Engineered Products: AEP & Other	Engineered Products: Railway Products	Unallocated Corporate Costs	Total
Operating expenses	**2008**	**2,395**	**1,635**	**332**	**(270)**	**4,092**
	2007	2,050	1,258	373	563	4,244
Increase (decrease) $		345	377	(41)	(833)	(152)
% net of sales	**2008**	**5.8**	**11.9**	**8.5**	**N/A**	**6.9**
	2007	4.6	12.2	8.3	N/A	7.1

Rubber Compounding

Operating expenses include exchange losses of $0.8 million. This was entirely offset in head office by an exchange gain of the same amount due to various hedging programs the Company employs to protect itself from significant exchange fluctuations.

The Company chooses to hedge the exchange exposure created by the raw materials inventory of this division which is almost entirely purchased in US dollars and turns over 8 to 10 times per year. The inventory is valued at the average exchange rates during the period it was purchased. The hedging strategy involves offsetting this inventory with US denominated 30 day LIBOR debt and a 30 day revolving forward contract which are valued at month end rates. At March 31, 2008 the Canadian dollar month end rate was approximately 2.5% lower than the average rate for the month. This created an unrealized exchange loss of approximately $0.5 million which will self-correct as the average rate approaches the month end rate.

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

AirBoss Engineered Products
AEP operating costs reflect $0.1 million higher distribution costs relating to overseas shipments offset by a reduction in marketing consulting fees compared to the first quarter of last year.

Railway Products
The expenses were comparable year over year.

Unallocated Corporate Costs
Corporate costs in the quarter ended March 31, 2008 were $0.8 million lower than last year due to foreign exchange gains generated in head office to offset losses in the compounding division.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $0.6 million or an effective income tax rate for the quarter of 39.4% (34.5% in 2007).

The primary factor contributing to a higher effective tax rate was:

- $0.2 million relating to foreign exchange translation losses in US entities.

NET INCOME AND EARNINGS PER SHARE

Net income in 2008 amounted to $0.8 million and $1.1 million in 2007. The basic and fully diluted earnings per share in the quarter were $0.04 (2007-$0.05) based on basic and fully diluted shares outstanding 23,805 (2007-23,755) and 23,805 (2007-23,990) respectively.

QUARTERLY INFORMATION

($ thousands except per share amounts)

	Net Sales	Net Income (Loss)		Net Income (Loss) Per Share	
Quarter Ended	Continuing Operations	Continuing Operations	Total	Basic	Diluted
March 31, 2008	58,978	972	972	0.04	0.04
December 31, 2007	51,364	945	945	0.04	0.04
September 30, 2007	56,704	1,151	1,151	0.05	0.05
June 30, 2007	59,368	868	868	0.04	0.04
March 31, 2007	59,655	1,150	1,150	0.05	0.05
December 31, 2006	52,949	(95)	(8)	0.00	0.00
September 30, 2006	55,681	1,580	1,599	0.07	0.07
June 30, 2006	60,884	3,402	3,122	0.13	0.13

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 from 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

Cash flows from operations
AirBoss generated $2.3 million in operating cash flows before changes in working capital compared to $1.8 million in 2007. The change was due to a net change in $0.6 million unrealized foreign exchange losses compared to 2007.

Non-cash working capital
The investment in non-cash working capital relating to continuing operations decreased by $7.9 million as follows:

Accounts receivable increased by $4 million due to:

- Rubber Compounding receivables increased $5.5 million from higher sales in February and March, compared to November and December 2007
- AEP receivables decreased $2.3 million from the collection of receivables and higher defense sales in the fourth quarter of 2007 compared to the first quarter of 2008
- Rail receivables increased $0.7 million from higher sales

Inventories increased by $3.1 million due to the timing of receipts:

- Rubber Compounding increased $2.3 million primarily relating to natural rubber as well as cost increases
- AEP increased $0.5 million relating to the timing of production and sales of CBRN products
- Rail $0.3 million

Accounts payable increased by $5.3 million due to higher volumes and inventory requirements:

- Rubber Compounding $3.2 million
- AEP $1.2 million and includes $0.6 million of cheques released after the quarter
- Rail $0.9 million

During 2007, the Company had remitted sufficient tax installments and was not required to make a final remittance in the first quarter of 2008 for the 2007 fiscal year.

Capital expenditures

Capital expenditures for the quarter ended March 31, 2008 were $0.6 million compared to $0.3 million in 2007.

- Rubber Compounding spent $0.1 million for various manufacturing projects
- AEP incurred $0.4 million for infrastructure improvements

Other assets

During the first quarter of 2008, $0.2 million was deposited in escrow.

Financing

The Company expects to fund its 2008 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 described on page 18 in the Management's Discussion and Analysis of Company's 2007 Annual Report. For the three-month period ended March 31, 2008, the Company did not enter into any material contractual obligations outside the normal course of business.

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.

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. The rent paid in the first quarter was $22,500 ($22,500 in 2007).

During the first quarter, the Company paid monthly dues relating to a facility in South Carolina of approximately $3,000 ($7,000 in 2007) to a company in which the Chairman is an officer.

The Company provided a $0.1 million share purchase loan in 2006 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".

SUBSEQUENT EVENT

Subsequent to the quarter end, the Company entered into a forward contract which involves selling a total of US $5 million at an average rate of 1.0182 on a multiple delivery window forward basis between May and November, 2008.

CHANGES IN ACCOUNTING POLICIES

Commencing January 1, 2008, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (the “CICA”) 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 and has had no material impact on the results.

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. Our disclosure is included in Note 7 to the financial statements.

Section 3862 outlines disclosure requirements for financial instruments and places increased emphasis on describing the risks associated with recognized and unrecognized financial instruments and how these risks are managed. Our disclosure is included in Note 7 to the financial statements.

Section 3863 carries forward the presentation requirements from Section 3861 “Financial Instruments Disclosure and Presentation” and did not have an impact on the first quarter 2008 financial statements.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Goodwill and Intangible Assets

Section 3064, Goodwill and Intangible Assets, will replace Section 3062, Goodwill and Other Intangible Assets, and results in the withdrawal of section 3450, Research and Development Costs and EIC-27, "Revenues and Expenditures in the Pre-operating Period". The standard intends to reduce the differences with International Financial Reporting Standards (IFRS) in the accounting for intangible assets and results in closer alignment with US GAAP. Under current Canadian standards, more items are recognized as assets than under IFRS or US GAAP. The objectives of Section 3064 were to:

- reinforce a principle-based approach to the recognition of costs as assets in accordance with the definition of an asset and the criteria for asset recognition in Section 1000; and
- clarify the application of the concept of matching revenues and expenses in Section 1000 such that the current practice of recognizing as assets items that do not meet the definition and recognition criteria is eliminated.

The standard will also provide guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. These changes are effective for fiscal years beginning on or after Oct. 1, 2008, with early adoption encouraged. The Company is evaluating the effects of adopting this standard.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises for interim and annual financial statements effective January 1, 2011. The Company is evaluating the effects of adopting this standard.

Management's Responsibility for Financial Reporting

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.

OUTLOOK

The sales outlook for the second quarter remains strong in both AirBoss-Defense and in Rubber Compounding. The defense products business is driven by demand for our CBRN products which will increase as production of the C-4 Canadian gas mask begins in May.

The Rubber Compounding division is starting the second quarter with another strong sales month that represents an increase in volume over the previous year. We remain optimistic for a continued strong sales year.

Major raw material supplies and customer pricing are secured for the second quarter and we are currently working on sourcing the remaining 6 months of the year. Matching future material costs and customer pricing during periods of raw material price volatility and improving production efficiency in Scotland Neck are keys to providing improved margins in this business the remainder of the year.

The second quarter will continue the trend of higher sales volumes in the Company's core rubber businesses despite challenging economies and volatile material costs.

R.L. Hagerman
President and Chief Executive Officer

S.W. Richards
Vice-President Finance and CFO

Notice of Disclosure of Non-Auditor Review of Interim Financial Statements

For the three-month periods ended March 31, 2008 and 2007

Pursuant to Ontario Securities Legislation's National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company for the interim periods ended March 31, 2008 and 2007, have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the Company's management.

The Company's independent auditors, KPMG LLP, have not performed a review of these interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Dated this 12th day of May, 2008.

Consolidated Balance Sheets

(thousands $ CDN)	March 31, 2008	December 31, 2007
	(unaudited)	
ASSETS		
Current assets:		
Accounts receivable	$ 33,351	$ 29,346
Inventories	27,356	24,181
Prepaid expenses	769	1,102
Income taxes receivable	1,599	2,322
Total current assets	63,075	56,951
Capital assets	55,508	56,085
Goodwill	16,620	16,620
Future income tax assets	4,258	4,258
Other assets	4,747	4,622
Total assets	$ 144,208	$ 138,536
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Demand loan	$ 20,938	$ 20,893
Accounts payable and accrued liabilities	26,585	21,239
Dividends payable	-	595
Current portion of term loan and other debt	1,381	1,361
Total current liabilities	48,904	44,088
Term loan and other debt	16,029	16,083
Future income tax liabilities	9,362	9,673
Accrued post retirement benefit liability	2,039	1,965
Total liabilities	76,334	71,809
Commitments (Note 5)		
Shareholders’ equity:		
Share capital	40,537	40,537
Contributed surplus	1,555	1,491
Accumulated other comprehensive loss	(712)	(823)
Retained earnings	26,494	25,522
Total shareholders’ equity	67,874	66,727
Total liabilities and shareholders’ equity	$ 144,208	$ 138,536

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

(unaudited) (thousands $ CDN, except per share amounts) For the three-month periods ended March 31	2008	2007
NET SALES	$ 58,978	$ 59,655
Cost of sales	53,285	53,658
Gross margin	5,693	5,997
OPERATING EXPENSES		
General and administrative	2,238	2,502
Selling, marketing and distribution	1,323	1,371
Product research	310	201
Total operating expenses	3,871	4,074
Income before undernoted items	1,822	1,923
Other income	(476)	(610)
Income before interest expense	2,298	2,533
Interest expense	697	780
Income before income taxes	1,601	1,753
Provision for income taxes	629	603
Net income	972	1,150
Retained earnings, beginning of year	25,522	22,598
Retained earnings, end of year	$ 26,494	$ 23,748
Net income per share - Basic and Diluted	$ 0.04	$ 0.05

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income

(unaudited) (thousands $ CDN) For the three-month periods ended March 31	2008	2007
Net Income	$ 972	$ 1,150
Other comprehensive income (loss) - net of income tax	111	(42)
Comprehensive income	$ 1,083	$ 1,108
Accumulated other comprehensive loss, beginning of period	$ (823)	$ (158)
Accumulated other comprehensive income (loss) - net of income tax	111	(42)
Accumulated other comprehensive loss, end of period	$ (712)	$ (200)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(unaudited) (thousands $ CDN) For the three-month periods ended March 31	2008	2007
CASH PROVIDED BY (USED IN):		
Operating Activities:		
Net income from continuing operations	$ 972	$ 1,150
Items not affecting cash:		
Amortization	1,278	1,154
Future income taxes	(311)	(254)
Foreign exchange (gain) loss	225	(390)
Options expense	64	77
Post-retirement benefits expense	74	77
	2,302	1,814
Changes in non-cash operating working capital balances	(751)	(8,524)
Cash provided by (used in) operating activities	1,551	(6,710)
Investing Activities:		
Purchase of capital assets	(571)	(316)
Increase in other assets	(154)	(190)
Cash used in investing activities	(725)	(506)
Financing Activities:		
Net increase in demand loan	83	7,557
Repayment of term loan	(314)	(347)
Settlement of other debt	-	6
Dividends paid	(595)	-
Cash provided by (used in) financing activities	(826)	7,216
Increase (decrease) in cash during the period	-	-
Cash and short-term deposits at the beginning of the period	-	-
Cash and short-term deposits at the end of the period	$ -	$ -
Supplementary Cash Flow Information:		
Cash Interest paid	$ 840	$ 751
Cash income taxes remitted	429	2,988

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Three months ended March 31, 2008 and 2007

(unaudited, tabular amounts in thousands of dollars, except share and per share amounts)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
These unaudited interim 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. The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for financial statements, except that certain disclosures required for annual financial statements have not been included. Accordingly, these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2007, except as noted below. The unaudited interim consolidated financial statements have been prepared on a basis consistent with the policies set out in the Company's consolidated annual financial statements for fiscal 2007, except as described in note 2.

Seasonality
The Company is affected by seasonal factors in that rubber compounding and rail segment sales volumes are lower in the first and fourth quarter.

NOTE 2 CHANGES IN ACCOUNTING POLICIES

Commencing January 1, 2008, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (the "CICA") 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 and has had no material impact on the results.

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. Our disclosure is included in Note 7 to the financial statements.

Section 3862 outlines disclosure requirements for financial instruments and places increased emphasis on describing the risks associated with recognized and unrecognized financial instruments and how these risks are managed. Our disclosure is included in Note 7 to the financial statements.

Section 3863 carries forward the presentation requirements from Section 3861 "Financial Instruments Disclosure and Presentation" and did not have an impact on the first quarter 2008 financial statements.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Goodwill and Intangible Assets
Section 3064, Goodwill and Intangible Assets, will replace Section 3062, Goodwill and Other Intangible Assets, and results in the withdrawal of section 3450, Research and Development Costs and EIC-27, "Revenues and Expenditures in the Pre-operating Period". The standard intends to reduce the differences with International Financial Reporting Standards (IFRS) in the accounting for intangible assets and results in closer alignment with US GAAP. Under current Canadian standards, more items are recognized as assets than under IFRS or US GAAP. The objectives of Section 3064 were to:

- reinforce a principle-based approach to the recognition of costs as assets in accordance with the definition of an asset and the criteria for asset recognition in Section 1000; and
- clarify the application of the concept of matching revenues and expenses in Section 1000 such that the current practice of recognizing as assets items that do not meet the definition and recognition criteria is eliminated

The standard will also provide guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. These changes are effective for fiscal years beginning on or after Oct. 1, 2008, with early adoption encouraged. The Company is evaluating the effects of adopting this standard.

International Financial Reporting Standards
On February 13, 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises for interim and annual financial statements effective January 1, 2011. The Company is evaluating the effects of adopting this standard.

Notes to Consolidated Financial Statements (cont’d)

NOTE 3 STOCK OPTIONS

During the first quarter ended March 31, 2008, the Company recorded stock-based compensation of $64,000 ($77,000 in 2007) relating to prior year option grants in general and administrative expenses of the statement of income.

NOTE 4 FUTURE RETIREMENT BENEFITS

During the three-month periods ended March 31, 2008 and 2007, the Company’s future retirement benefit expenses were $75,000 and $77,000 respectively.

NOTE 5 COMMITMENTS AND RELATED PARTY TRANSACTIONS

Related Party Transactions
Lease payments for corporate office space paid to a company controlled by the Chairman of the Company were $22,500 for the three-month period ended March 31, 2008 ($22,500 in 2006). The Company paid dues relating to a facility in South Carolina of approximately $3,000 for the three-month period ($7,000 in 2007) to a company in which the Chairman is an officer.

The Company provided a $0.1 million share purchase loan in 2006 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”.

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

NOTE 6 SEGMENTED INFORMATION

	Sales excluding inter-company				
	Canada	US	Other	Total	Inter-company
March 2008					
Rubber Compounding Operations	18,710	22,531	94	41,335	510
AEP and Other	2,634	10,122	994	13,750	1,652
Railway Products	-	3,893	0	3,893	-
Total	21,344	36,546	1,088	58,978	2,162
March 2007					
Rubber Compounding Operations	20,964	23,547	365	44,876	315
AEP and Other	2,167	7,418	702	10,287	1,496
Railway Products	-	4,125	367	4,492	-
Total	23,131	35,090	1,434	59,655	1,811

	Rubber Compounding Operations	AEP & Other	Railway Products	Corporate and Inter-company Eliminations	Total
March 2008					
Sales	41,844	15,403	3,893	(2,162)	58,978
Cost of sales	39,304	12,655	3,488	(2,162)	53,285
	2,540	2,748	405	-	5,693
Operating expenses	2,395	1,635	332	(270)	4,092
Income before income taxes	145	1,113	73	270	1,601
Provision for income taxes					629
Net income					972
Assets employed					
Canada	73,705	43,167	-	2,278	119,150
US	18,487	266	6,305	-	25,058
Total	92,192	43,433	6,305	2,278	144,208
Purchase of capital assets	84	456	31	-	571
Amortization of capital assets and other assets	750	421	79	28	1,278
Goodwill	7,944	7,182	1,494	-	16,620

	Rubber Compounding Operations	AEP & Other	Railway Products	Corporate and Inter-company Eliminations	Total
March 2007					
Sales	45,191	11,783	4,492	(1,811)	59,655
Cost of sales	41,219	10,308	3,942	(1,811)	53,658
	3,972	1,475	550	-	5,997
Operating Expenses	2,050	1,258	373	563	4,244
Income before income taxes	1,922	217	177	(563)	1,753
Provision for income taxes					603
Net income					1,150
Assets employed					
Canada	82,219	40,779	-	959	123,957
US	17,243	-	5,749	-	22,992
Total	99,462	40,779	5,749	959	146,949
Purchase of capital assets	195	64	57	-	316
Amortization of capital assets and other assets	698	338	84	34	1,154
Goodwill	7,944	7,182	1,494	-	16,620

NOTE 7 FINANCIAL INSTRUMENTS

Financial risk management

The Company's activities result in exposure to a variety of financial risks, including risks related to commodity prices, currency fluctuation, interest rates, credit, and liquidity. The risk factors described on pages 20 to 22 of the Company's 2007 Annual Report is an integral part of these interim consolidated financial statements and provides the earnings sensitivity to market risks.

Market Risk

Commodity prices and supplies

The Company's financial performance depends on certain outside sources for raw materials including carbon black and synthetic and natural rubber used in the production of its products, the price and availability of which are subject to fluctuations from such factors as weather, exchange rates and the price of oil, changes in industry production capacity, changes in world inventory levels and other factors beyond the Company's control.

The Company manages its commodity price and supply risk by matching purchase commitments to its customers' requirements during term of the price quote ranging from 1 to 3 months and maintains supply sources in different areas of the world. The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements; such contracts are not settled net.

Currency Risk

Most of the Company's products are sold at prices denominated in US dollars or based on prevailing US dollar prices, most of the raw material purchases are denominated in US dollars, and a significant portion of its operational costs and expenses are incurred in Canadian dollars. Therefore, an increase in the value of the Canadian dollar relative to the US dollar reduces the revenue in Canadian dollar terms realized by the Company from sales made in US dollars, which reduces operating margin and the cash flow available to fund operations. The net US monetary assets of its Canadian operations represent a currency risk as the balances are re-measured at the month end spot rate creating an unrealized exchange gain or loss. The Company also has an investment in a US integrated operation, whose net assets are exposed to foreign currency translation risk. The Company's exposure related to its US self sustaining operation is limited to its net investment.

The Company manages its currency risk relating to monetary assets and liabilities denominated in US dollars by increasing or decreasing the proportion of operating or term loan denominated in US funds or forward currency contracts. The Company chooses to manage the exchange exposure relating to raw materials purchased in US dollars in the rubber compounding division by offsetting this inventory with US denominated 30 day LIBOR debt and a 30 day revolving forward contract which are valued at month end rates. The Rubber Compounding segment's profit and loss is somewhat naturally hedged in that sales denominated in US dollars offset US dollar expenses and debt service costs. AEP's business has relatively lower US dollar expense content and is not naturally hedged.

Interest Rate Risk

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

When the demand loan and term loan were negotiated, the primary objective was to obtain flexibility to manage its currency exposure. Currently 20.9% (2007: 18%) of borrowings are on a fixed rate basis and the Company has benefited from the reduction in the variable rates. The Company has no policy to manage the proportion of borrowings on a fixed rate basis but is assessing its ability to increase its proportion of fixed rate revolving line of credit and term loan. The Company has not entered into interest rate swap derivatives.

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

(thousands $ CDN)	**2008**	2007
Fixed rate instruments		
Financial assets	**158**	150
Financial liabilities	**(8,159)**	(8,939)
Variable rate instruments		
Financial assets	**4,236**	3,718
Financial liabilities	**(30,523)**	(39,375)
Total	**(34,288)**	(44,446)

Notes to Consolidated Financial Statements (cont’d)

Fair value sensitivity analysis for fixed rate instruments
The Company does not account for any fixed rate financial assets and liabilities as held for trading, and the Company does not designate derivatives as hedging instruments under fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect net income with respect to these fixed rate instruments.

A change of 100 basis points in interest rates would have increased or decreased net income by $6,000 (2007: $7,000)

Fair value sensitivity analysis for variable rate instruments
A change of 100 basis points in interest rates at the reporting date would have increased or decreased net income for the quarter by:

	Net income	
(thousands $ CDN)	100bp increase	100bp decrease
2008		
Variable rate instruments	(40)	51
Total	(40)	51
2007		
Variable rate instruments	(22)	29
Total	(22)	29

This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis was performed on the same basis for 2007.

Credit Risk
The Company sells its products to a variety of customers under various payment terms in the normal course of its operations and therefore is exposed to credit risks. The Company’s exposure to credit risk is influenced by general economic conditions, the default risk of the industry and the relative concentration of business. A majority of the Company’s trade receivables are derived from sales to distributors, and manufacturers who have been transacting with the Company for over 5 years.

In monitoring credit risk, the Company considers industry, volume and aging trends, maturity, and other relevant factors. The Company performs ongoing credit evaluations of its customers’ financial condition and limits the amount of credit extended when deemed necessary. Purchase limits established for certain accounts represent the maximum open balance permitted without approval from the CEO. The Company maintains reserves for potential credit losses relating to specific exposures, and any such losses to date have been within management’s expectations. 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.

The maximum exposure to credit risk at the reporting date is the carrying value of receivables.

The movement in the allowance for doubtful accounts receivable in respect of trade receivable during the period was not material.

Liquidity Risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions.

The Company manages liquidity by maintaining adequate cash balances, having appropriate lines of credit available and monitoring cash requirements to meet expected operational expenses including debt service and capital requirements. In addition, the Company maintains a facility permitting the Company to borrow up to $45 million. At March 31, 2008, the Company had drawn $21 million against this facility. When negotiating its term facility, the Company obtained a 15 year amortization period.

The contractual maturities of financial liabilities are described on page 18 of the Company's 2007 Annual Report.

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

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

The Board has no target for the amount of shares held by employees however Directors and Officers currently own 23.6% or 5,622,973 shares of the Company. Each Director is required to hold shares for value equal to 3 years retainer fees in order to align objectives with that of shareholders. There is no plan to extend options beyond key management and senior employees. When strengthening of the Canadian dollar had an adverse impact on the returns earned by US shareholders, the Company implemented a semi-annual dividend policy to provide an additional return.

The Board has no plan to balance the Company’s leverage through a normal course issuer bid or offering unless it will be accretive to shareholders.

The Company’s approach to capital management is expected to remain unchanged in 2008.

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

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 approximate 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 $1.0250 million has been recorded at its fair market value of $52,000 and have been recorded in other assets.

NOTE 8 SUBSEQUENT EVENT

Subsequent to the quarter end, the Company entered into a forward contract which involves selling a total of US $5 million at an average rate of 1.0182 on a multiple delivery window forward basis between May and November, 2008.

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