AIRBOSS OF AMERICA CORP. FIRST QUARTER INTERIM REPORT 2006

TRUST. COMMITMENT. PERFORMANCE.

AIRBOSS OF AMERICA CORP.

AirBoss of America Corp. is one of today's most respected and trusted global manufacturers of high performance proprietary rubber-based products. We develop, manufacture, and sell high quality proprietary rubber-based products offering enhanced performance and productivity to transportation, defense and industrial markets. With a capacity to supply over 250 million pounds of rubber annually to a diverse group of rubber manufacturers, AirBoss is one of North America's largest custom compounding companies.

Business Segments		Q1 2006	Markets
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.	$47 million	• 55% sales to US • Conveyor belts, tires and retreading automotive parts
Military and industrial Products	Manufacturer of protective wear for military and first response applications. Manufactures extruded, calendered, cushion gum, and compression moulded rubber products.	$9 million	• 66% sales to US • CBRN footwear, gloves and masks for defense and firefighter
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.	$5 million	• 100% sales to US • Plastic pads and insulators metal rail fastening clips

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FIRST QUARTER 2006 RESULTS

FOR THE THREE MONTHS ENDED MARCH 31

(thousands $ CDN, except per share and share amounts)	2006	2005
Net sales	**$ 61,115**	$ 59,568
Gross margin	**8,286**	7,215
Earnings before interest, taxes & amortization (EBITDA) (Note 1)	**4,715**	4,003
Interest expense	**829**	827
Net income from continuing operations	**1,828**	1,319
Net income (loss) from discontinued operations	**(51)**	201
Net income	**1,777**	1,520
Net income per share, from continuing operations		
- Basic	**$ 0.08**	$ 0.06
- Diluted	**$ 0.08**	$ 0.06
Net income per share		
- Basic	**$ 0.08**	$ 0.07
- Diluted	**$ 0.08**	$ 0.06
Cash flow before changes in non-cash working capital	**$ 2,734**	$ 3,078
Common shares outstanding (millions):		
- Basic	**23.0**	22.6
- Diluted	**23.6**	23.8

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.

(thousands) For the three months ended March 31	2006	2005
Income from continuing operations before income taxes	**$ 2,648**	$ 1,919
Interest expense	**829**	827
Amortization from continuing operations	**1,238**	1,257
EBITDA - continuing operations	**$ 4,715**	$ 4,003

TO OUR SHAREHOLDERS

Sales for the quarter ended March 31, 2006 increased by 2.6% to $61.1 million while Net Income increased by 17%. The improvements are mainly attributable to the Rubber Compounding operations as sales of AirBoss-Defense and Railway Products are weighted towards the second through fourth quarters of the year.

Rubber Compounding

Sales of compounds by weight increased by 10%, while sales dollars increased by 18%. The increase in demand is attributable to the Company being a leader in the development and production of compounds servicing the mining and energy generation sectors. More specifically, the Company manufactures compounds for conveyor belts and off-road tire retreading.

Manufacturing operations became more efficient and production capacity levels from existing equipment increased by more than 10%. These improvements were facilitated by the reorganization of operations. This has a positive impact on margins as did the elimination of compounds that had very low or negative margins. The Company anticipates further improvements as volumes and efficiencies at the newest facility in Scotland Neck, North Carolina, reach a post-start-up level. Attaining commercial production levels was delayed due to equipment problems which we believe are now rectified.

Raw material costs continue to remain high. Of particular concern are the cost of natural rubber and carbon black which have shown strong indications of increasing further.

AirBoss-Defense

While sales decreased by $2.6 million, sales were close to plan and by the end of the year are expected to exceed the previous year's total by 10%. The timing of Military releases can be somewhat unpredictable and has recently been affected by backlog at independent labs commissioned to conduct lot testing.

The Company has ordered additional equipment to establish rubber injection moulding production capabilities in North Carolina. This equipment should be installed in July 2006 and provide the Company with both additional surge capacity and increase the proximity to the customer base.

Railway Products

The Railway Products Division had another strong quarter although sales were lower than the previous year. This is attributed to timing as well as a decrease in low margin metal clips for the North American market. The change in product mix has had a favourable impact on margins and profitability is only lagging the previous year marginally. Traditionally, the second quarter is the strongest for this business as both special projects and track construction schedules fill up.

This business also has a direct exposure to increased activity in mining and, in particular, the transportation of coal.

Outlook

We are encouraged by the results for the first quarter. The outlook for the next quarter is for continued improvement in all major business groups.

Rubber compounding performance will improve just from the elimination of non-recurring start-up costs and the increase in production levels in Scotland Neck. The defense products and railway products business will also benefit from increased sales and production levels.

The major concerns continue to be the cost of raw materials and the volatility of the Canadian dollar which may accelerate plans to shift production to the US.

P.G. Schoch
Chairman

Robert L. Hagerman
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis ("MD&A") of the financial position of AirBoss of America Corp. (the "Company") and results of operations for the three month period ended March 31, 2006 prepared as of May 1, 2006 should be read in conjunction with the audited consolidated financial statements and notes thereto, as well as the MD&A and audited consolidated financial statements for the year ended December 31, 2005 contained in the 2005 Annual Report to Shareholders. The consolidated interim financial statements have not been audited or reviewed on behalf of shareholders by the Company's independent external auditors. All tabular dollar amounts are shown in thousands of Canadian dollars unless otherwise specified. Additional information relating to the Company, including the Company's Annual Information Form, can be obtained from SEDAR at www.sedar.com and at the Company's website at www.airbossofamerica.com

FORWARD-LOOKING STATEMENT

The information in this Management's Discussion and Analysis contains certain forward-looking statements which reflect the Company's current view of future events, business outlook and anticipated financial performance. Such statements are subject to assumptions, which may be incorrect, and to risks and uncertainties which are difficult to predict. As a result, actual results could be materially different and readers are cautioned not to place undue reliance on such information.

Risks that could cause actual results to materially differ from current expectations may include, but are not limited to, those described in the "Risk factors and uncertainties" section of the MD&A in the 2005 Annual Report to Shareholders.

SIGNIFICANT EVENTS

The Rubber Compounding US operation in Scotland Neck, North Carolina commenced commercial production in the first quarter of 2006.

CHANGES IN ACCOUNTING POLICIES

No new accounting policies were adopted in the first quarter of 2006.

Selected Financial Information

Three months ended March 31 (thousands, except per share amounts)	**2006**	2005
Net sales	**$ 61,115**	$ 59,568
Net income from continuing operations	**1,828**	1,319
Net income	**1,777**	1,520
Net income per share - (continuing)		
- Basic	**0.08**	0.06
- Diluted	**0.08**	0.06
Cash flow before changes in non-cash working capital	**2,734**	3,078
Capital expenditures	**1,473**	2,193

($ thousands)	**March 31, 2006**	December 31, 2005
Total assets	**$ 138,933**	$ 124,679
Demand loan	**23,385**	11,763
Term loan and other debt	**21,696**	22,429
Shareholders' Equity	**58,741**	56,248

RESULTS OF OPERATIONS (Three-month period ended March 31, 2006 compared to the same period in 2005)

SALES FROM CONTINUING OPERATIONS

Sales revenue for the first quarter ended March 31, 2006 of $61.1 million represented an increase of $1.5 million or 2.6% in 2006 compared with 2005.

Three month periods ended March 31 ($ thousands)	RUBBER COMPOUNDING	ENGINEERED PRODUCTS AEP AND OTHER	ENGINEERED PRODUCTS RAILWAY PRODUCTS	TOTAL
Net sales **2006**	**47,251**	**9,077**	**4,787**	**61,115**
2005	40,151	12,671	6,746	59,568
Increase(decrease) $	7,100	(3,594)	(1,959)	1,547
Increase(decrease) %	17.7%	(28.3%)	(29.0%)	2.6%

Rubber Compounding

Net sales revenue for the quarter ended March 31, 2006 increased by $7.1 million of which $3.9 million is attributed an increase in sales volume of 9.8%. The balance of the increase relates to price increases to recover material and energy cost increases. There were also corrective price increases given to several low margin and/or low volume compounds.

A stronger Canadian dollar has reduced the revenue increase from US denominated sales by approximately $2 million.

Process re-engineering efforts added additional capacity to our Kitchener facility which has been operating at or near capacity since the middle of the second quarter of 2004. This allowed the Company to continue to meet increased customer requirements particularly in the growing mining and energy generation sectors.

During the quarter, the new facility in Scotland Neck was put into service and successful customer trials were conducted. Although this did not add significant capacity in the quarter, we anticipate that this new facility will achieve breakeven levels early in the second quarter.

AirBoss Engineered Products & Other

Net sales decreased $3.6 million or 28.3% for the quarter. Industrial sales decreased $1.0 million as a result of reduced sales from a key customer. Military sales decreased $2.6 million. This is attributed solely to the timing of releases and shipments and the Company is still forecasting a minimum 10% increase over the previous year.

A stronger Canadian dollar lowered the revenue decrease from US denominated sales by $0.6 million.

Railway Products

Net sales for the quarter ended March 31, 2006 decreased $2.0 million compared with the same period in 2005. Sales of low margin clips for the domestic market were down compared to the previous year.

A stronger Canadian dollar lowered the revenue decrease from US denominated sales by $0.4 million.

GROSS MARGINS

Gross margins for the three month period ended March 31, 2006 increased by $1.1 million from $7.2 million to $8.3 million compared to 2005, representing a 14.9% increase.

Three month periods ended March 31 ($ thousands)		RUBBER COMPOUNDING	ENGINEERED PRODUCTS AEP AND OTHER	ENGINEERED PRODUCTS RAILWAY PRODUCTS	TOTAL
Gross Margin	**2006**	**5,331**	**2,148**	**807**	**8,286**
	2005	3,226	2,896	1,093	7,215
Increase(decrease) $		2,105	(748)	(286)	1,071
% net of sales	**2006**	**11.3**	**23.7**	**16.9**	**13.6**
	2005	8.0	22.9	16.2	12.1

Rubber Compounding

Gross margin increased $2.1 million due to higher volumes, more effective controls over production costs and the elimination of low and negative margin compounds. Material cost increases were, for the most part, successfully reflected in selling prices. Production inefficiencies were reduced as a result of several changes in production methodologies. This increased productivity permitted the reduction of overtime and downtime costs. Scrap and rework costs were also decreased.

AirBoss Engineered Products and Other

Lower sales in the military business decreased gross margin in this segment by $0.7 million.

Railway Products

Gross margin decreased by $0.3 million from lower sales.

OPERATING EXPENSES

Operating expenses increased by $0.3 million during the first quarter ended March 31, 2006 compared to the same quarter in 2005.

Three month periods ended March 31 ($ thousands)		RUBBER COMPOUNDING	ENGINEERED PRODUCTS AEP AND OTHER	ENGINEERED PRODUCTS RAILWAY PRODUCTS	CORPORATE & INTERCOMPANY ELIMINATIIONS	TOTAL
Operating expenses[(1)]	**2006**	**3,158**	**1,749**	**391**	**340**	**5,638**
	2005	2,414	1,791	440	651	5,296
Increase(decrease)	$	744	(42)	(49)	(311)	342
% of net sales	**2006**	**6.7**	**19.3**	**8.2**	**-**	**9.2**
	2005	6.0	14.1	6.5	-	8.9

(1) Operating expenses include selling, general and administrative expenses, allocated interest expenses on demand loan and long-term debt, and other income and expenses.

Rubber Compounding

Operating expenses increased $0.6 million related to Scotland Neck and the balance was attributed to additional salary costs in the Kitchener facility.

AirBoss Engineered Products and Other

Lower allocated interest costs and higher foreign exchange gains reduced operating costs by $0.2 million and was partly offset by higher travel, promotional, professional fees and salary costs primarily in the military business.

Railway Products

Operating expenses decreased by $0.05 million from lower freight and product development costs.

Corporate and other eliminations

Operating expenses decreased $0.3 million primarily related to the recapture of forfeited stock option benefits.

INCOME TAX EXPENSE

The Company recorded an income tax expense for the quarter of $0.8 million or 31.0% of income from continuing operations before income taxes, compared to $0.6 million or 31.3% in the first quarter of 2005.

NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS

Net sales and net loss from discontinued operations were $0.2 million and $0.1 million in the first quarter of 2006 compared with $1.7 million net sales and $0.2 million net income in 2005. The decrease in net sales was primarily from ceasing commercial footwear operations in February, 2005 and lower segmented tire sales. The 2005 discontinued operations reflect $0.3 million of royalties earned on the sale of commercial footwear assets.

NET INCOME AND EARNINGS PER SHARE

Net income increased in the first quarter of 2006 by $0.3 million or 16.9% to $1.8 million income from $1.5 million income in 2005 primarily from improvements in the compounding business. From continuing operations, basic earnings and diluted earnings per share were $0.08 compared with $0.06 in 2005. From net income, the basic and diluted earnings per share were $0.08 compared to $0.07 and $0.06 respectively, in 2005. The basic weighted average number of shares outstanding in the quarter increased by 181,500 to 23,020,423 (22,624,867 in 2005), as a result of employees exercising options in the first quarter. The fully diluted weighted average number of shares outstanding was 23,627,961 at the end of the first quarter of 2006 (23,840,694 in 2005).

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from continuing operations

Although net income from continuing operations improved by $0.5 million primarily in the compounding segment, operating cash flows before changes in non-cash working capital balances decreased by $0.3 million in the quarter compared to 2005.

Non-cash working capital

The investment in non cash working capital relating to continuing operations was $13.0 million at March 31, 2006 compared to $17.7 million at the end of the first quarter of 2005.

The non-cash working capital increased in the first quarter of 2006 due to:

- An increase in accounts receivable of $10.3 million reflecting higher sales
- An increase in inventory of $3.3 million reflecting higher commodity price levels and expansion
- An increase in prepaid insurance of $0.4 million due to the timing of the premium payments
- An increase in accounts payable of $0.5 million from higher raw material purchases
- A $0.5 million increase in income taxes payable from higher income

Cash from discontinued operations

Cash provided by discontinued operations was $1.2 million less than in 2005 for the quarter, primarily from lower working capital levels.

Capital expenditures

Capital expenditures for the first quarter ended March 31, 2006 were $1.5 million compared to $2.2 million last year. The majority of the capital expenditures related to the rubber compounding business, of which, $1.0 million pertains to production equipment for the US expansion.

Other assets

Other assets increased primarily as a result of restricted funds being deposited in the quarter.

Financing

The Company expects to fund its 2006 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.

During the quarter, the net increase in demand loan was $11.6 million. Scheduled term loan payments of $0.8 million were remitted. Employees exercising stock options provided $0.9 million of financing.

Contractual obligations

The Company's contractual obligations as at December 31, 2005 are described on page 32 in the Company's Annual Report 2005. For the three month period ended March 31, 2006, the Company did not enter into any material contractual obligations outside the normal course of business.

The term loan matures in October, 2006 and is treated as a current liability accordingly. The Company expects to renegotiate its term loan facility.

Related party transactions

Included in the operating lease commitments contained in the annual financial statements is a rental agreement for corporate office space between the Company and a company controlled by the Chairman of the Company. During the three-month period ended March 31, 2006, the Company paid $22,500 (2005 - $22,500) in rent.

QUARTERLY INFORMATION

The following is a summary of selected financial information from the Company's unaudited interim consolidated financial statements from each of the eight most recent quarters.

(thousands except shares and per share amounts)

	NET SALES	NET INCOME (LOSS)		NET INCOME (LOSS) PER SHARE - CONTINUING OPERATIONS		NET INCOME (LOSS) PER SHARE	
QUARTER ENDED	CONTINUING OPERATIONS	CONTINUING OPERATIONS	TOTAL	BASIC	DILUTED	BASIC	DILUTED
March 31, 2006	61,115	1,828	1,777	0.08	0.08	0.08	0.08
December 31, 2005	51,258	182	228	0.01	0.01	0.01	0.01
September 30, 2005	54,206	(1,644)	(1,744)	(0.07)	(0.07)	(0.08)	(0.07)
June 30, 2005	61,210	1,695	1,597	0.07	0.07	0.07	0.07
March 31, 2005	59,568	1,319	1,520	0.06	0.06	0.07	0.06
December 31, 2004	49,246	833	(759)	0.04	0.04	(0.03)	(0.03)
September 30, 2004	50,002	1,428	927	0.06	0.06	0.04	0.04
June 30, 2004	49,292	1,338	973	0.06	0.06	0.04	0.04

Items that impact the comparability of net income (loss) include:

- The third quarter of 2005 results included the impact of a $4 million rail patent settlement
- The fourth quarter of 2004 reflected $1.5 million asset write-down in the discontinued tire operation

OUTLOOK

The outlook for the second quarter is for continued improvement in sales, manufacturing efficiencies and working capital utilization. Demand for rubber compounds used in mining and energy generation related products is forecasted to continue to be strong. Manufacturing efficiencies will also continue to improve as Scotland Neck achieves commercial levels of production. Sales levels are also forecasted to increase for both the defense and railway products businesses.

The cost of raw materials continues to be of concern. Increases are anticipated in carbon black and natural rubber has also been volatile. The strong Canadian dollar will also impact operations and force the continued shift of production to the US.

Robert L. Hagerman
President and Chief Executive Officer

Stephen W. Richards
Vice-President Finance and CFO

CONSOLIDATED BALANCE SHEETS

(thousands $ CDN)

	March 31, 2006 (unaudited)	December 31, 2005
ASSETS		
Current assets:		
Accounts receivable	**$ 31,787**	$ 21,479
Inventories	**27,811**	24,526
Prepaid expenses	**811**	441
Current assets of discontinued operations (note 2)	**708**	1,328
Total current assets	**61,117**	47,774
Capital assets	**53,307**	52,808
Assets held for sale	**359**	359
Long-term assets of discontinued operations (note 2)	**41**	105
Goodwill	**16,620**	16,620
Future income tax assets	**1,537**	1,173
Other assets	**5,952**	5,840
Total assets	**$ 138,933**	$ 124,679
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand loan	**$ 23,385**	$ 11,763
Accounts payable and accrued liabilities	**21,639**	21,152
Income taxes payable	**2,240**	1,758
Current liabilities of discontinued operations (note 2)	**53**	129
Current portion of term loan and other debt (note 7)	**21,696**	22,429
Total current liabilities	**69,013**	57,231
Future income tax liabilities	**9,765**	9,851
Accrued post retirement benefit liability (note 5)	**1,414**	1,349
Total liabilities	**80,192**	68,431
Shareholders' equity:		
Share capital	**39,906**	39,056
Contributed surplus	**1,163**	1,309
Cumulative translation adjustment	**(213)**	(225)
Retained earnings	**17,885**	16,108
Total shareholders' equity	**58,741**	56,248
Total liabilities and shareholders' equity	**$ 138,933**	$ 124,679

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	2006	2005
NET SALES	**$ 61,115**	$ 59,568
Cost of sales	**52,829**	52,353
Gross margin	**8,286**	7,215
OPERATING EXPENSES:		
General and administrative	**2,569**	2,222
Selling, marketing and distribution	**1,986**	1,741
Product research	**315**	431
Total operating expenses	**4,870**	4,394
Income before interest expense and other income	**3,416**	2,821
Interest expense	**829**	827
Other expense (income)	**(61)**	75
Income from continuing operations, before income taxes	**2,648**	1,919
Provision for income taxes	**820**	600
Net income from continuing operations	**1,828**	1,319
Income (loss) from discontinued operations, net of tax (note 2)	**(51)**	201
Net Income	**1,777**	1,520
Retained earnings, beginning of period	**16,108**	14,507
Retained earnings, end of period	**$ 17,885**	$ 16,027
Net income per share		
From continuing operations		
- Basic	**$ 0.08**	$ 0.06
- Diluted	**$ 0.08**	$ 0.06
From net income		
- Basic	**$ 0.08**	$ 0.07
- Diluted	**$ 0.08**	$ 0.06

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (thousands $ CDN) For the three month periods ended March 31	2006	2005
CASH PROVIDED BY (USED IN):		
Operating Activities:		
Net income from continuing operations	**$ 1,828**	$ 1,319
Items not affecting cash:		
Amortization	**1,238**	1,257
Future income taxes	**(450)**	240
Foreign exchange loss	**199**	98
Options expense (income)	**(146)**	100
Post-retirement benefits expense	**65**	64
	2,734	3,078
Changes in non-cash operating working capital balances	**(12,988)**	(10,168)
Net cash used in continuing operations	**(10,254)**	(7,090)
Net cash provided by discontinued operations	**497**	1,720
Cash used in operating activities	**(9,757)**	(5,370)
Investing Activities:		
Purchase of capital assets	**(1,473)**	(2,193)
Purchase of other assets	**(509)**	(904)
Cash used in investing activities	**(1,982)**	(3,097)
Financing Activities:		
Net increase in demand loan	**11,622**	7,542
Net increase in term loan	**17**	1,580
Repayment of term debt	**(750)**	(750)
Issuance of share capital	**850**	95
Cash provided from financing activities	**11,739**	8,467
Increase (decrease) in 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	**$ 940**	$ 1,106
Cash income taxes remitted	**312**	79

See accompanying notes to consolidated financial statements

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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, 2005, except as noted below. The unaudited interim consolidated financial statements have been prepared on a basis that is consistent with the policies set out in the Company's consolidated annual financial statements for fiscal 2005.

Seasonality

The Company is not significantly affected by seasonal or cyclical business factors.

NOTE 2 DISCONTINUED OPERATIONS

Commercial Footwear

During the quarter ended June 30, 2004, the Company adopted a formal plan to discontinue the manufacture of commercial footwear and to focus its footwear resources on the manufacture and sale of specialized products for emergency response and military markets. Commercial footwear production had become increasingly uncompetitive with foreign-sourced imports. The Company concluded an agreement to permit a third party to manufacture commercial footwear under the "Acton" brand-name. The Company agreed to continue to produce selected items until February 2005 to assist in the transition.

A summary statement of operations for the commercial footwear operations is as follows:

Quarter ended March 31,	**2006**	2005
Net sales	**$ -**	$ 835
Gross margin	**-**	24
Operating income (expenses)	**-**	298
Income (loss) before tax	**$ -**	$ 321
Net income (loss)	**-**	224

During the first quarter of 2006, operating expenses included $73,000 of royalties which were offset with legal and arbitration fees.

Assets held in discontinued operations:

	March 31, 2006	December 31, 2005
Accounts receivable	**$ 73**	$ 154

The Company's assets related to the commercial footwear activities will be liquidated in the normal course of business.

Tire Manufacturing and Distribution

During the quarter ended December 31, 2004, the Company adopted a formal plan to discontinue the manufacture of solid and segmented tires and to offer the business for sale. This segment of the tire market had become increasingly uncompetitive due to the performance and cost improvements made to pneumatic tires, with which this business competed. During the first quarter of 2005, the Company sold the assets of the business.

A summary statement of operations for the tire manufacturing and distribution operations is as follows:

Quarter ended March 31,		2006		2005
Net sales	**$**	**194**	$	817
Gross margin		**(24)**		130
Operating expenses		**60**		168
Loss before tax	**$**	**(84)**	$	(38)
Net loss		**(51)**		(23)
Amortization		**3**		–

Assets and liabilities held in discontinued operations:

		March 31, 2006		December 31, 2005
Accounts receivable	**$**	**371**	$	584
Inventory		**254**		575
Prepaid expenses		**10**		15
Current assets	**$**	**635**	$	1,174
Accounts payable		**53**		129
Capital assets		**41**		105

During the quarter, $61,000 of production equipment was transferred to continuing operations.

NOTE 3 STOCK OPTIONS

During the first quarter of 2006, 759,000 stock options were exercised at an exercise price of $1.12. No stock options were granted during this period.

For the three month period ended March 31, 2006, the Company recorded a recovery of stock-based compensation of $0.2 million from forfeited options. For the three month period ended March 31, 2005, stock-based compensation expensed was $0.1 million relating to current and prior year option grants, which is included in general and administrative expenses in the statement of operations.

NOTE 4 FOREIGN EXCHANGE RISK

The Company operates in North America which gives rise to a risk that its income, cash-flows, and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rates between the US and Canadian dollars. Amounts denominated in US currency represents 66% of total accounts receivable (2005 – 67%), 60% of accounts payable (2005 – 55%), 81% of bank indebtedness (2005 – 40%) and 23% of term loan (2005 – 9%).

NOTE 5 FUTURE RETIREMENT BENEFITS

During the three month periods ended March 31, 2006 and 2005, the Company's future retirement benefits expenses were $65,000 and $64,000 respectively.

NOTE 6 SEGMENTED INFORMATION

	SALES EXCLUDING INTER-COMPANY				
	CANADA	USA	OTHER	TOTAL	INTER-COMPANY
March 2006					
Rubber Compounding Operations	20,798	26,073	380	47,251	704
AEP and Other	2,515	5,951	611	9,077	4,480
Railway Products	-	4,787	-	4,787	-
Total	23,313	36,811	991	61,115	5,184

	SALES EXCLUDING INTER-COMPANY				
	CANADA	USA	OTHER	TOTAL	INTER-COMPANY
March 2005					
Rubber Compounding Operations	17,362	22,590	199	40,151	235
AEP and Other	2,435	9,620	616	12,671	2,416
Railway Products	-	6,746	-	6,746	-
Total	19,797	38,956	815	59,568	2,651

	RUBBER COMPOUNDING	AEP AND OTHER	RAILWAY PRODUCTS	CORPORATE AND INTERCOMPANY ELIMINATIONS	TOTAL
March 2006					
Sales	47,954	13,558	4,787	(5,184)	61,115
Cost of sales	42,623	11,410	3,980	(5,184)	52,829
	5,331	2,148	807	-	8,286
Operating expenses	3,158	1,749	391	340	5,638
Income (loss) before income taxes	2,173	399	416	(340)	2,648
Provision for income taxes					(820)
Net income from continuing operations					1,828
Assets employed					
Canada	76,419	42,182	-	909	119,510
US	12,163	-	6,511	-	18,674
Total	88,582	42,182	6,511	909	138,184
Purchase of capital assets	1,140	259	73	1	1,473
Amortization of capital assets and other assets	637	403	70	128	1,238
Goodwill	7,944	7,182	1,494	-	16,620

	RUBBER COMPOUNDING	AEP AND OTHER	RAILWAY PRODUCTS	CORPORATE AND INTERCOMPANY ELIMINATIONS	TOTAL
March 2005					
Sales	40,387	15,080	6,752	(2,651)	59,568
Cost of sales	37,161	12,184	5,659	(2,651)	52,353
	3,226	2,896	1,093	-	7,215
Operating expenses	2,414	1,791	440	651	5,296
Income (loss) before income taxes	812	1,105	653	(651)	1,919
Provision for income taxes					(600)
Net income from continuing operations					1,319
Assets employed					
Canada	80,934	43,689	-	860	125,483
US	3,592	-	5,974	-	9,566
Total	84,526	43,689	5,974	860	135,049
Purchase of capital assets	2,059	107	15	12	2,193
Amortization of capital assets and other assets	619	495	88	55	1,257
Goodwill	7,944	7,182	1,494	-	16,620

NOTE 7 TERM LOAN

The term loan of $21,652,000 ($22,385,000 in 2005) has been recorded as a current liability since it matures within one year, on October 15, 2006. Management intends to renew AirBoss' term debt.

NOTE 8 COMMITMENTS AND RELATED PARTY TRANSACTIONS

Lease payments for corporate office space to a company controlled by the Chairman of the Company were $22,500 for the quarter ($22,500 in 2005). Monthly dues relating to a facility in South Carolina of $4,900 ($8,900 in 2005) were paid in the quarter to a Company in which the Chairman is an officer.

AIRBOSS OF AMERICA CORP.

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President and Chief Executive Officer: R.L. (Bob) Hagerman
Vice-President Finance and CFO: Stephen W. Richards

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