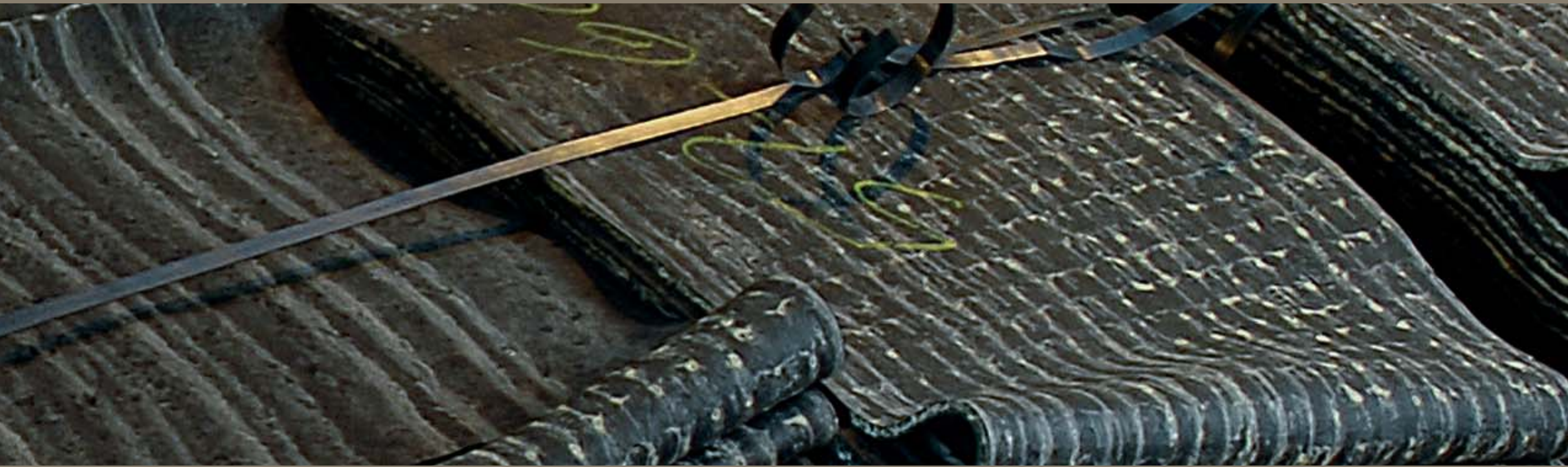
stability. ingenuity. capability.



Q1

AirBoss of America Corp. First Quarter Interim Report 2007

stability. ingenuity. capability.

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.

Business Segments		**Q1 2007**	**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.	$45 million	• 52% 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.	$10 million	• 72% sales to US • CBRN footwear, gloves and masks for defence 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.	$4 million	• 92% sales to US • Plastic pads and insulators, and metal rail fastening clips

Contents

First Quarter 2007 Results

For the Three Months Ended March 31 (thousands $ CDN, except per share and share amounts)	**2007**	2006
Net sales	**$ 59,655**	$ 61,115
Gross margin	**6,368**	8,286
Earnings before interest, taxes & amortization (EBITDA) (Note 1)	**3,676**	4,715
Interest expense	**775**	829
Net income from continuing operations	**1,144**	1,828
Net income (loss) from discontinued operations	**6**	(51)
Net income	**1,150**	1,777
Net income per share, from continuing operations		
- Basic	**$ 0.05**	$ 0.08
- Diluted	**$ 0.05**	$ 0.08
Net income per share		
- Basic	**$ 0.05**	$ 0.08
- Diluted	**$ 0.05**	$ 0.08
Cash flow before changes in non-cash working capital from continuing operations	**$ 1,808**	$ 2,734
Common shares outstanding (millions):		
- Basic	**23.8**	23.0
- Diluted	**24.0**	23.6

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 $ CDN) For the three months ended March 31	**2007**	2006
Income from continuing operations before income taxes	**$ 1,747**	$ 2,648
Interest expense	**775**	829
Amortization from continuing operations	**1,154**	1,238
EBITDA - continuing operations	**$ 3,676**	$ 4,715

To Our Shareholders

Sales for the quarter ended March 31, 2007 decreased by 2.4% to $59.7 million while net income from continuing operations was $1.1 million or $0.05 per share. These results reflect some temporary softness in certain key markets served by the Company's Rubber Compounding Division.

Rubber Compounding

Sales of rubber compounds to key markets such as belting for mining and energy generation were weaker than in the previous year but are expected to rebound strongly in the next two quarters of the current fiscal year. This sector accounted for most of the volume decline, however long-term prospects remain excellent.

Our newest facility in North Carolina has shown considerable progress as a result of its equipment modifications and has passed qualifications for many compounds with demanding manufacturing specifications in a wide range of applications. As a result, sales have reached commercial levels and we expect continued volume increases.

There has been very little change in the volatility of raw materials which continue to trade in the high end of their historical price ranges despite the weakness in some of the traditional rubber markets such as tires and automotive parts.

AirBoss-Defense

First quarter sales were highlighted by the shipment of approximately 100,000 pairs of CBRN protective footwear. Most of this quantity was shipped under the contract obtained in September 2006 for $9.6 million. The CBRN footwear and hand wear are important products to AirBoss and we expect further orders including a major order for gloves of approximately $3 million in the second quarter. Also anticipated is a contract for gas masks of approximately $6 million.

During the quarter, AirBoss-Defense also successfully bid on a military ECW ("Extreme Cold Weather") contract for delivery in 2007.

→ 250 million pounds of rubber annually

Railway Products

Developments in the Railway Products Division include:

- Successful joint bid with a concrete tie manufacturer to supply fastening systems for a 77,000 tie New Mexico rapid transit project;
- The approval by a major US railroad of a new heavy duty insulator and a long reach fastening clip;
- A follow-up order for 465,000 fastening clips for South America, with more expected.

In addition there is further accelerated product testing programs scheduled for May 2007 which, if successful, could result in meaningful additional orders for the current year.

Outlook

The soft markets in key sectors such as belting and products for rubber tracks that were anticipated for the first quarter occurred but have now rebounded as predicted. We anticipate an increase in business in the second quarter over the prior year in these two markets as we continue to solidify supply relationships with the leaders in these sectors.

We expect improved operating results from our North Carolina plant as it is now operating at efficient volume levels with equipment that has been configured to peak performance.

Despite the slower start to the year, we are looking for solid year over year volume increases in both our Rubber Compounding and Defense businesses. We have, in most cases, aligned ourselves with the leaders in the industries that we service with our rubber products, significant contracts and orders are being finalized in our Defense division and the Railway Product group continues to perform in a geographically expanding market place.

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 of Financial Condition and Results of Operations of AirBoss of America Corp. ("AirBoss" as the "Company") for the three month period ended March 31, 2007 has been prepared as of May 2, 2007 and should be read in conjunction with the Consolidated Financial Statements and Notes prepared in accordance with Canadian generally accepted accounting principles. 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 21 to 23.

Highlights

Selected Financial Information

Three months ended March 31 (thousands, except per share amount)	**2007**	2006
Financial results:		
Net sales	**$ 59,655**	$ 61,115
Net income from continuing operations	**1,144**	1,828
Net income	**1,150**	1,777
Net income per share - continuing operations		
- Basic	**0.05**	0.08
- Diluted	**0.05**	0.08
Net income per share		
- Basic	**0.05**	0.08
- Diluted	**0.05**	0.08
Operating cash flow used in continuing operations	**(6,833)**	(10,254)
Capital expenditures	**316**	1,473

(thousands)	**March 31, 2007**	December 31, 2006
Financial Position:		
Total assets	**$ 147,238**	$ 138,933
Demand loan	**28,364**	23,385
Term loan and other debt	**20,161**	21,696
Shareholders' equity	**65,260**	58,741
Outstanding shares	**23,755**	23,755

Rubber Compounding

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

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

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

AirBoss Engineered Products ("AEP")

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

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

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

Railway Products Division

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

RESULTS OF OPERATIONS

SALES FROM CONTINUING OPERATIONS

Sales revenues from continuing operations decreased 2.4%.

($ thousands)		Rubber Compounding	Engineered Products: AEP and Other	Engineered Products: Railway Products	Total
Net sales	**2007**	**44,876**	**10,287**	**4,492**	**59,655**
	2006	47,251	9,077	4,787	61,115
Increase (decrease) $		(2,375)	1,210	(295)	(1,460)
Increase (decrease) %		(5.0%)	13.3%	(6.2%)	(2.4%)

Rubber Compounding

Sales expressed in Canadian dollars decreased over the same period in 2006 by 5.0% primarily as a result of a temporary decline in sales of compounds to the belting industry. Demand in this sector is expected to rebound in the second quarter and sales for the summer are currently forecasted to be in excess of levels obtained in 2006. The long term outlook for this sector remains very good with demand for rubber products expected to increase over the next 5 to 10 years.

Our mixing facility in North Carolina has qualified new customers and compounds in a variety of industries utilizing its newly installed equipment. Monthly sales from this facility averaged 1.2 million pounds per month in the first quarter and should increase by 50% in the second quarter.

AirBoss Engineered Products

Sales increased by $1.2 million or 13.3% compared to 2006. AirBoss-Defense sales increased by $1.7 million due to the sale of Chemical, Biological, Radiological and Nuclear ("CBRN") protective wear. Sales of CBRN footwear accounted for most of this increase. Sales of Industrial Products decreased by $0.7 million due to lower demand for products used in the manufacture of rubber track.

Sales of CBRN products is forecasted to continue to increase for the remainder of the year as we are in the process of finalizing the administrative and shipping details for orders for approximately $3 million in CBRN hand wear. We also anticipate contracts for gas masks in the next few months. Sales volumes of industrial rubber products have also begun to increase in the second quarter.

Railway Products

Sales in Canadian dollars decreased by $0.3 million for the quarter ended March 31, 2007 compared to 2006.

GROSS MARGIN

Gross margin for the three-month period ended March 31, 2007 was $6.4 million, a decrease of $1.9 million compared to 2006 primarily attributable to the volume declines in rubber compounding and industrial rubber products.

			Engineered Products		
($ thousands)		Rubber Compounding	AEP	Railway Products	Total
Gross Margin	**2007**	**3,972**	**1,846**	**550**	**6,368**
	2006	5,331	2,148	807	8,286
Increase (decrease) $		(1,359)	(302)	(257)	(1,918)
% net of sales	**2007**	**8.9**	**17.9**	**12.3**	**10.7**
	2006	11.3	23.7	16.9	13.6

Rubber Compounding

The decrease in gross margin in the first quarter of 2007 compared with the first quarter of 2006 was mainly attributable to lower volumes which affected the recovery of fixed manufacturing costs. Commodity prices for key raw materials such as natural rubber and synthetic rubber continue to fluctuate in the high end of their historical ranges.

AirBoss Engineered Products

Gross margin at AEP had decreased by $0.3 million during the first quarter 2007 compared with first quarter of 2006. The increase in military gross margin of $0.4 million was offset by a decrease in industrial gross margin of $0.7 million due to the lower volumes of rubber track products.

Railway Products

Gross margin decreased by $0.3 million and is 12.0% of sales in 2007 compared to 17.0% of sales the previous year due to unfavorable sales mix.

EXPENSES

Operating expenses, including other income and interest, for the first quarter ended March 31, 2007 were $1.0 million lower than in 2006 in the Rubber Compounding segment.

			Engineered Products			
($ thousands)		Rubber Compounding Operations	AEP and Other	Railway Products	Unallocated Corporate Costs	Total
Operating expenses	**2007**	**2,050**	**1,635**	**373**	**563**	**4,621**
	2006	3,158	1,749	391	340	5,638
Increase (decrease) $		(1,108)	(114)	(18)	223	(1,017)
% net of sales	**2007**	**4.6**	**15.9**	**8.3**	**N/A**	**7.7**
	2006	6.7	19.3	8.2	N/A	9.2

Rubber Compounding

Operating expenses decreased by $1.1 million in the first quarter 2007 compared with 2006. This reduction is comprised of a net reduction in General and Administrative expenses of $0.4 million due to personnel cost reductions, and a decrease in freight costs of $0.2 million due to volume changes and shorter distances as a result of shipping from North Carolina. The quarter also reflects the recovery of $0.6 million in damages, net of expenses, resulting from successful class action lawsuits concerning the purchase of EPDM and certain chemicals.

AirBoss Engineered Products

AEP operating costs decreased by $0.1 million for the first quarter ended March 31, 2007 from lower sales and marketing expenses.

Railway Products

The expenses were comparable year over year.

Unallocated Corporate Costs

Corporate costs in the quarter ended March 31 were $0.2 million higher than last year due to non-cash stock option expense.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $0.6 million or an effective income tax rate for the year of 34.5% compared to $0.8 million or 31.0% effective tax rate in 2006 from an increase in stock option expenses not deductible for tax.

NET INCOME AND EARNINGS PER SHARE

Net income from continuing operations in 2007 amounted to $1.1 million and $1.8 million in 2006. The basic and fully diluted earnings per share in the quarter were $0.05 (2006-$0.08) and $0.05 (2006-$0.08) based on basic and fully diluted shares outstanding 23,755 (2006-23,020) and 24,020 (2006-23,472) respectively.

QUARTERLY INFORMATION

($ thousands except 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, 2007	59,655	1,144	1,150	0.05	0.05	0.05	0.05
December 31, 2006	52,949	(95)	(8)	0.00	0.00	0.00	0.00
September 30, 2006	55,681	1,580	1,599	0.07	0.07	0.07	0.07
June 30, 2006	60,884	3,402	3,122	0.14	0.14	0.13	0.13
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

Items impacting comparability of quarters

- 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.
- The third quarter of 2005 results included a $4 million rail patent settlement.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operations

AirBoss generated $1.8 million in operating cash flows before changes in working capital compared to $2.7 million in 2006. The change was due mainly to a decrease in net income by $0.6 million compared to 2006.

Non-cash working capital

The investment in non-cash working capital relating to continuing operations was $45.2 million at March 31, 2007 compared to $36.5 million in the first quarter of 2006.

The non-cash working capital increased by $8.6 million in the first quarter of 2007 as follows:

Accounts receivable increased by $10.2 million due to a change in negotiated terms with a key account and significant cheques in transit which were received and deposited subsequent to quarter end.

Income taxes payable decreased in the first quarter of 2007 as a result of remitting the final corporate tax installments for fiscal 2006.

Inventories decreased by $2.1 million primarily in the rubber compounding segment due to the timing of receipts of overseas shipments.

Cash from discontinued operations

Cash provided from discontinued operations was $0.1 million primarily from lower working capital levels.

Capital expenditures

Capital expenditures for the quarter ended March 31, 2007 were $0.3 million compared to $1.5 million in 2006.

Other assets

During the first quarter of 2007, $0.1 million was invested in rail clip product development costs, and $0.1 million was deposited in escrow, and $0.2 million was recorded relating to unexercised forward currency contracts.

Financing

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

Commitments and contractual obligations

The Company's contractual obligations as at December 31, 2006 are described on page 36 in the Company's Annual Report 2006. For the three month period ended March 31, 2007, 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 forward exchange contract to sell US $1.5 million at a rate of 1.1460 until June 2007. As well, the Company has a $5 million forward contract as a partial hedge against U.S. 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 2006).

During the first quarter, the Company paid monthly dues relating to a facility in South Carolina of approximately $7,000 ($4,900 in 2005) 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".

NEW ACCOUNTING POLICIES

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

i) Financial Instruments – Recognition and Measurement

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

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

Financing fees relating to the negotiation of the term loan are deferred and netted against the carrying value of the term loan and are amortized over the term using the effective interest method. The Company has reclassified $0.1 million from other assets to term loan as a result of adopting this standard.

ii) Hedges

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

iii) Comprehensive Income

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

- Changes in the cumulative translation adjustment related to self-sustaining operations;
- Unrealized gains or losses on available-for-sale investments; or
- Gains or losses on derivatives designated as cash-flow hedges.

The implications to the Company include:

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

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

A temporary softening of demand for rubber compounds products used in mining, energy generation and the manufacture of rubber tracked vehicles that was experienced at the end of 2006 extended into the first quarter of 2007. The Company is anticipating an increase in rubber compound sales in each of the last three quarters of 2007 as a result of the recovery of these important sectors. Long-term prospects are excellent in these industries and we are well positioned to take advantage of the increased requirements anticipated in the next 5 to 10 years.

Demand for rubber compounds in certain other traditional markets such as automotive and on-road pneumatic tires is expected to remain weak in 2007. These account for a small percentage of our total business but will have the effect of sustaining an industry excess capacity situation and therefore a very competitive marketplace. The Company anticipates further manufacturing efficiencies from its North Carolina, Kitchener and Acton-Vale facilities due to the elimination of start-up costs, equipment improvements and lean manufacturing initiatives.

Sales of CBRN military and First Response protective wear in both Europe and North America should increase significantly. The Company has recently signed two major contracts with the US Department of Defense Joint Services to provide both CBRN protective hand wear and footwear.

Robert L. Hagerman
President and Chief Executive Officer

Stephen 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, 2007 and 2006

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, 2007 and 2006, 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 2nd day of May, 2007.

Consolidated Balance Sheets

(thousands $ CDN)	March 31, 2007	December 31, 2006
	(unaudited)	
ASSETS		
Current assets:		
Accounts receivable	**$ 35,647**	$ 25,486
Inventories	**30,995**	33,099
Prepaid expenses	**923**	642
Current assets of discontinued operations	**289**	351
Total current assets	**67,854**	59,578
Capital assets	**54,899**	55,620
Assets held for sale	**359**	359
Goodwill	**16,620**	16,620
Future income tax assets	**2,865**	2,748
Other assets	**4,641**	4,291
Total assets	**$ 147,238**	$ 139,216
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand loan	**$ 28,364**	$ 20,807
Accounts payable and accrued liabilities	**21,218**	20,482
Income taxes payable	**1,176**	2,188
Current liabilities of discontinued operations	**198**	143
Current portion of term loan and other debt	**1,684**	1,678
Total current liabilities	**52,640**	45,298
Term loan and other debt	**18,477**	18,922
Future income tax liabilities	**9,132**	9,269
Accrued post retirement benefit liability	**1,729**	1,652
Total liabilities	**81,978**	75,141
Commitments (note 6)		
Shareholders' equity:		
Share capital	**40,395**	40,395
Contributed surplus	**1,317**	1,240
Accumulated other comprehensive income	**(200)**	(158)
Retained earnings	**23,748**	22,598
Total shareholders' equity	**65,260**	64,075
Total liabilities and shareholders' equity	**$ 147,238**	$ 139,216

See accompanying notes to consolidated financial statements.

On behalf of the Board

Robert L. Hagerman
Director

Robert L. McLeish
Director

Consolidated Statements of Income and Retained Earnings

(unaudited) (thousands $ CDN, except per share amounts)

For the three month periods ended March 31	2007	2006
NET SALES	**$ 59,655**	$ 61,115
Cost of sales	**53,287**	52,829
Gross margin	**6,368**	8,286
OPERATING EXPENSES		
General and administrative	**1,936**	2,569
Selling, marketing and distribution	**1,741**	1,986
Product research	**201**	315
Total operating expenses	**3,878**	4,870
Income before undernoted items	**2,490**	3,416
Other income	**(32)**	(61)
Income from continuing operations, before interest expense	**2,522**	3,477
Interest expense	**775**	829
Income from continuing operations, before income taxes	**1,747**	2,648
Provision for income taxes	**603**	820
Net income from continuing operations	**1,144**	1,828
Income (loss) from discontinued operations, net of tax (Note 3)	**6**	(51)
Net income	**1,150**	1,777
Retained earnings, beginning of year	**22,598**	16,108
Retained earnings, end of year	**$ 23,748**	$ 17,885
Net income per share		
From continuing operations		
- Basic	**$ 0.05**	$ 0.08
- Diluted	**$ 0.05**	$ 0.08
From net income		
- Basic	**$ 0.05**	$ 0.08
- Diluted	**$ 0.05**	$ 0.08

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(unaudited) (thousands $ CDN)

For the three month periods ended March 31	2007	2006
Net Income	**1,150**	1,777
Other comprehensive income (loss) - net of income tax:		
Change in foreign currency translation gains (losses) on self-sustaining foreign operations	**(42)**	12
	(42)	12
Comprehensive income	**1,108**	1,789

Consolidated Statements of Cash Flows

(unaudited) (thousands $ CDN) For the three month periods ended March 31	**2007**	2006
CASH PROVIDED BY (USED IN):		
Operating Activities:		
Net income from continuing operations	**$ 1,144**	$ 1,828
Items not affecting cash:		
Amortization	**1,154**	1,238
Future income taxes	**(254)**	(450)
Foreign exchange (gain) loss	**(390)**	199
Options expense	**77**	(146)
Post-retirement benefits expense	**77**	65
	1,808	2,734
Changes in non-cash operating working capital balances	**(8,641)**	(12,988)
Net cash used in continuing operations	**(6,833)**	(10,254)
Net cash provided by discontinued operations	**123**	497
Cash used in operating activities	**(6,710)**	(9,757)
Investing Activities:		
Purchase of capital assets	**(316)**	(1,473)
Increase in other assets	**(190)**	(509)
Cash used in investing activities	**(506)**	(1,982)
Financing Activities:		
Net increase in demand loan	**7,557**	11,622
Increase in term loan	**-**	17
Repayment of term loan	**(347)**	(750)
Settlement of other debt	**6**	-
Issuance of share capital	**-**	850
Cash provided by financing activities	**7,216**	11,739
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	**$ 751**	$ 940
Cash income taxes remitted	**2,988**	312

See accompanying notes to consolidated financial statements.

Three months ended March 31, 2007 and 2006

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

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, 2006, 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 2006, 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, 2007, the Company adopted three new CICA accounting standards: i) Section 3855 "Financial Instruments – Recognition and Measurement", ii) Section 3865 "Hedges" and iii) Section 1530 "Comprehensive Income". No material adjustments were required to the Balance Sheet or the Consolidated Statements of Income. The principal changes due to the adoption of these standards are summarized below:

i) Financial Instruments – Recognition and Measurement

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

As a result of adopting this standard, the Company has designated its forward contracts as held for trading, accounts receivable, note receivable and restricted funds as loans and receivables, accounts payable, demand loan and long term debt as other liabilities. The carrying value and fair value of financial assets and liabilities are summarized as follows:

March 31	**2007**
	Fair value
Held for trading	**106**
Held to maturity	**-**
Loans and receivables	**38,509**
Available for sale	**-**
Other liabilities	**69,743**

Financing fees relating to the negotiation of the term loan are deferred and netted against the carrying value of the term loan and are amortized over the term using the effective interest method. The Company has reclassified $0.1 million from other assets to term loan as a result of adopting this standard.

ii Hedges

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

iii) Comprehensive Income

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

- Changes in the cumulative translation adjustment related to self-sustaining operations;
- Unrealized gains or losses on available-for-sale investments; or
- Gains or losses on derivatives designated as cash-flow hedges.

The implications to the Company include:

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

NOTE 3 DISCONTINUED OPERATIONS

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

Three months ended March 31	**2007**	2006
Net sales	**$ 10**	$ 194
Income (loss) before tax	**8**	(84)
Net income (loss)	**6**	(51)
Amortization	**-**	3

NOTE 4 STOCK OPTIONS

During the first quarter ended March 31, 2007, the Company recorded stock-based compensation of $77,000 ($146,000 recovery in 2006 from forfeited options) relating to prior year option grants in general and administrative expenses of the statement of income.

NOTE 5 FUTURE RETIREMENT BENEFITS

During the three month periods ended March 31, 2007 and 2006, the Company's future retirement benefit expenses were $77,000 and $65,000 respectively.

NOTE 6 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, 2007 ($22,500 in 2006). The Company paid monthly dues relating to a facility in South Carolina of approximately $7,000 for the three-month period ($4,900 in 2006) 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 forward exchange contract to sell US $1.5 million at a rate C$1.1460 until June 2007. As well, the Company has a $5 million forward contract as a partial hedge against U.S. dollar denominated inventory.

NOTE 7 SEGMENTED INFORMATION

	Sales excluding inter-company				
	Canada	USA	Other	Total	Inter-company
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
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	-	4,499	288	4,787	-
Total	23,313	36,523	1,279	61,115	5,184

	Rubber Compounding Operations	AEP and 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	9,937	3,942	(1,811)	53,287
	3,972	1,846	550	-	6,368
Operating expenses	2,050	1,635	373	563	4,621
Income before income taxes	1,922	211	177	(563)	1,747
Provision for income taxes					603
Net income from continuing operations					1,144
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

	Rubber Compounding Operations	AEP and Other	Railway Products	Corporate and Inter-company 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 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

NOTE 8 FINANCIAL INSTRUMENTS

Financial Instruments

The Company uses forward currency exchange contracts to reduce the impact of fluctuations in currency exchange rates attributable to the conversion of net U.S. cash receipts to fund its Canadian operations.

As of March 31, 2007, the Company had outstanding foreign exchange contracts to sell up to US$1.5 million at an exchange rate of C$1.1460 maturing over the next 3 months. Foreign exchange contracts not eligible for hedge accounting are included in other assets at a fair value of $0.1 million.

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