AirBoss

Third Quarter Interim Report

FINANCIAL HIGHLIGHTS

FOR THE THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2000

($000 except shares and per share amounts)

	Nine months ended September 30			Three months ended September 30		
	2000	**1999**	**Change %**	**2000**	**1999**	**Change %**
Net Sales ***(Note 1)***	$102,271	$90,288	13.3	$36,526	$36,609	(0.2)
Gross Profit	21,499	19,958	7.7	6,527	7,643	(15.6)
Earnings before interest, taxes & amortization	11,870	13,054	(9.1)	3,189	4,543	(29.8)
Interest	2,633	1,709	54.1	1,003	832	20.6
Income before tax	5,414	8,944	(39.5)	558	2,721	(79.5)
Net Income	3,433	5,759	(40.4)	349	1,767	(80.2)
Earnings per share - Basic	$0.15	$0.27	(44.4)	$0.02	$0.08	(75.0)
- Fully Diluted	0.15	0.26	(42.3)	0.02	0.08	(75.0)
Cash flow	7,165	10,453	(31.5)	1,808	3,398	(46.8)
Cash flow per share (weighted)	$0.32	$0.50	(36.0)	$0.08	$0.15	(49.7)
Common shares outstanding (million):						
- Basic	22.8	22.6	0.9	22.8	22.6	0.9
- Weighted	22.7	21.1	7.6	22.8	22.6	0.9

Note (1)

Value of Goods Produced and Sold	$118,463	$110,018	7.7	$42,190	$41,913	0.7
Less: Customer Supplied Materials	16,192	19,730	(17.9)	5,664	5,304	6.8
Net Sales	$102,271	$90,288	13.3	$36,526	$36,609	(0.2)

Note (2)

Losses for re-organized divisions included in income before tax	$2,527	$798	216.6	$1,618	$627	158.1

Letter to Shareholders

Sales increased by 13% for the nine month period ending September 30, 2000; however, results were disappointing with net income decreasing from $5.7 million in 1999 to $3.4 million in 2000. The reason for this decrease is threefold:

1) Delays in reaching sales objectives for filling capacity expansions -

Entering the year the Rubber Compounding Division counted on O.E.M. tire mixing for 35% of its overall mixing volumes. This was divided between two main customers. During the current year the Company has added a third O.E.M. customer as well as several smaller industrial customers. Unfortunately all three O.E.M. customers have undergone various unforeseen periods of uncertainty in forecasting demand that have resulted in changes in our expectations from this sector. Most recently, a 3 million pound per month order, which was to have started in September, was cancelled. It now appears that this requirement will have to be filled by other customers. These changes have had a significant short-term impact because they not only result in lost direct margins, but also in reduced recovery of fixed overheads. The Company anticipates that when these fluctuations and uncertainty in the O.E. tire market diminish, our overall volumes will increase. In the meantime we have doubled our U.S. industrial market sales efforts to reduce our dependence on this sector and to develop strategic alliances which will ensure volume increases.

2) Increases in raw material costs –

Due to the increase in oil prices, two of the key ingredients in many of our rubber compounds have increased significantly in price during the year and in particular during the third quarter. Carbon black prices have increased by approximately 15% while synthetic rubber has increased by over 20%. Natural rubber and most of the chemicals have remained relatively stable. While traditionally price increases and decreases have been passed along there are typically short delays in doing so. This is often based on competitors' actions and overall inventory levels. Additional product development costs are being incurred as reformulations of existing compounds with cheaper ingredients and recipes are trialled by customers. All of the above have the effect of increasing margin pressures.

The Company expects this trend to continue in the near future with continued downward movement on margins. We are attempting to offset these by increasing production efficiencies and reducing our fixed costs per unit by increasing volumes. We believe that we are one of the lowest cost producers and accordingly we should be able to carry out our plans of filling our mixing facilities even in a difficult market environment. Filling capacity will result in significant financial improvement.

3) Re-organization of U.S. moulding operations and tires –

The Company has been actively seeking a strategic partner or purchaser of its tire division for nine months. As an interim measure we have turned over sales and marketing to an agency to fix and reduce these costs. As a result of these changes we expect an improvement of greater than $1 million in annual earnings.

In conjunction with the tire changes we have moved our injection moulding operations from Michigan to Kitchener. This was done in concert with an up-grading of machinery and production methods. These changes are anticipated to reduce non-raw material cost of sales by as much as 25% and are necessary to increase competitiveness and profitability. The physical move was completed in October, and the new facility will be fully operational by the end of November. Expenses associated with the change in personnel and certain other costs will be written off as incurred.

Financial

At the end of the third quarter the Company was carrying approximately $2 million of excess raw material inventory due to increased purchasing prior to major price increases. In addition footwear inventories were higher than in previous years due to an increase in forecasted business as a result of the withdrawal of a major competitor from the market. Subsequent to the end of the quarter the Company re-structured its bank debt to increase the term loan portion of its loans to reflect the expansionary capital additions already made for the rail clip joint venture and the move of the moulding facilities to Kitchener.

Outlook

The fourth quarter will see the completion of the re-organization of the moulding operations, and, mixing volumes will decrease in November and then increase towards the end of the period. Footwear sales will seasonally decrease but will remain higher than in previous years. There are also potential new military contracts and renewals that may be granted during this time frame. It appears that market share within the O.E. tire groups is shifting. This is disruptive in forecasting expected volumes over the next three to four months. It is likely that the groups that increase their market share are existing customers of ours, and that this will increase their rubber requirements. Timing, however, remains an uncertainty in the short-term.

Entering 2001 the Company is well positioned to increase sales and profitability in all divisions. Our first significant shipments of protective footwear product into the U.S. will occur in the first quarter as will our first sales from the railway clip joint venture. Initial indications are that the two major U.S. railways will increase their new track programs and that these programs will start earlier than in 2000. An increase in rubber compounding volumes would somewhat offset decreases in margin due to higher raw material costs.

R.L. Hagerman,
President
AirBoss of America Corp.
November 14, 2000

Third Quarter 2000
Management Discussion and Analysis

Sales

Sales for the nine-month period ended September 30, 2000 increased by $12 million, or 13% over 1999 primarily as a result of the inclusion of Acton for the full period.

The rubber compounding division increased sales by approximately $4 million. The number of pounds mixed increased by 7.6 million pounds overall with an increase in non-O.E. tire customers sales of 10.4 million pounds and a decrease in O.E. tire customer sales of 2.9 million pounds. The average price of the non-tire compounds decreased from $0.86 to $0.80. Sales volumes were adversely affected in the third quarter by the delay in the start-up of the mixing of a second compound for a major new O.E.M. tire customer. This compound was anticipated to increase mixing output by up to 3.5 million pounds per month. It appears unlikely that volume will increase significantly prior to year end and actions have been taken which we hope will result in this capacity being partially sold by December.

Sales for the third quarter in the Quebec division, Acton, were flat over 1999 as decreases in military sales were offset by increases in commercial and industrial footwear. The Company won 100% of the U.K. military contract for N.B.C. boots which was awarded in June; however, production could not start until early September. Several military contracts are scheduled to be awarded in the last quarter of the year and we are confident that our market leadership position will be maintained. Most of these contracts would start production in 2001. The Company has also recently acquired certain tooling from a bankrupt competitor for the production of industrial protective rubber footwear for the Canadian and U.S. markets.

Sales in the Railway division increased by approximately $1 million for the nine month period compared to last year. Construction of the joint venture manufacturing facility in Saskatchewan is virtually completed and the first product has passed all required lab testing. It is anticipated that this product will have a positive effect on sales in the first quarter of 2001 corresponding with the railway construction season. The trend to use plastic instead of rubber pads for the most demanding applications continued. This did not affect sales significantly but did affect manufacturing margins.

The Company has entered into an agreement with a group of former employees to assume the sales and marketing function of the AirBoss Tires. This arrangement started in September and will mean the elimination of significant losses at the expense of a decrease in sales. Tire sales for the nine month period decreased by $1 million compared to 1999.

Gross Margins

Consolidated gross margins as a percentage of sales declined by 1% for the nine month period ended September 30, 2000 mainly as a result of the poor manufacturing results in Michigan which stems from the decreases in rubber rail pads and tire segments manufactured. High fixed costs make this location unattractive at these production levels and a decision was made in July to shut the Michigan facility and transfer production to the Company's Kitchener facility. The expected decrease in overhead costs from this move are significant and should return the moulding operation to profitability even at lower volumes and provide an advantage when bidding on additional business.

Raw material cost increases were most significant during the third quarter. Both carbon black and synthetic rubber prices increased by more than 15% during that period. These increases were partially offset in the compounding division by an increase in mixing volumes for customers who supplied their own materials. For the nine month period rubber compounding margins decreased by 0.7% representing cost increases not passed along to customers or offset by increased efficiencies. The Company anticipates that cost increases will continue into 2001 creating downward margin pressures in the industry as customers try to offset or avoid these increases. The Company feels that it should be able to take advantage of this situation to increase volumes in the future as we believe we are one of the industry's lowest cost producers.

Gross margins increased in the footwear division by 2% due to increased volumes and in the railway division by 5% due to product mix changes.

Sales and Administration

Sales and Administration expenses increased by slightly over 5% compared to last year for the three month period ended September 30, 2000. The rubber compounding division increased efforts in both the non-tire and tire area in the United States in a plan to broaden its customer base. Expenses increased in the footwear division due to increased commissioned sales and the addition of senior sales personnel for the U.S. and Western Canadian markets where the Company sees opportunity for growth.

Research and Development

Current developments projects include the moulded N.B.C. military gloves which have been well received in Europe due to their resistance to punctures, and their long lasting protection, a high temperature rubber compound for use in C.V. joints as well as a C.V. seal design, rubber compounds for military tank applications and designs for rapid transit rail dampeners. All of these products have now reached the stage where the Company will be actively marketing them.

Re-organization costs

The Company commenced significant re-organization of its tire and U.S. moulded parts operations. In late August the Company signed an agreement with former employees to sell and market the AirBoss tire on an agency basis and is in preliminary discussions to sell the manufacturing rights. Accordingly the Company has written off $500,000 of previously capitalized patent and product development costs. It is anticipated that these actions will save the Company up to $1.5 million annually. When and if agreements are finalized, there may be additional write-offs depending on the length of time AirBoss will continue to manufacture the product tire. These additional write-offs could range from $0 to $500,000.

In conjunction with these changes the Company has also upgraded and moved its moulding operations from Michigan to Kitchener in order to reduce manufacturing costs. The costs of this move to date have approximated $100,000 excluding capital additions. The Company estimates that labour and overhead costs could eventually be reduced by as much as 25% which will also increase its competitive ability to perform contract work.

Interest Expense

Interest expense increased by approximately $900,000 during the nine month period due to the consolidation of Acton for the full year, the funding of the clip joint-venture from working capital, the increase in footwear sales which required an increase in footwear inventory prior to the shipment in August of the winter booking sales and the increase in inventories in the rubber compound division as buying increased prior to substantial price increases. These increases should reverse partially in the fourth quarter improving cash-flow and reducing operating loan requirements.

CONSOLIDATED BALANCE SHEET

(thousands) (unaudited)

	As at			
		September 30, 2000		December 31, 1999
ASSETS				
Current assets:				
Accounts receivable	**$**	**25,304**	$	18,569
Inventories		**24,151**		19,091
Income taxes recoverable		**-**		1,094
Prepaid expenses		**847**		918
		50,302		39,672
Capital assets		**51,301**		49,321
Goodwill		**26,162**		26,661
Future tax asset		**520**		621
Other assets		**833**		1,350
	$	**129,118**	$	117,625
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Demand loan	**$**	**25,124**	$	15,415
Accounts payable and accrued liabilities		**11,885**		9,744
Income taxes payable		**477**		-
Current portion of term loan and other debt		**5,694**		5,703
		43,180		30,862
Term loans		**14,358**		16,258
Other debt		**7,199**		9,815
Accrued benefit liability		**138**		24
Future income tax liability		**6,679**		6,871
Shareholders' equity:				
Share capital		**38,869**		38,533
Retained earnings		**18,695**		15,262
		57,564		53,795
	$	**129,118**	$	117,625

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS
(thousands except per share amounts) (unaudited)

	Nine Month Period ended September 30, 2000	Nine Month Period ended September 30, 1999	Three Month Period ended September 30, 2000	Three Month Period ended September 30, 1999
SALES	**$ 102,271**	$ 90,288	**$ 36,526**	$ 36,609
Cost of sales	**80,772**	70,330	**29,999**	28,966
Gross Margin	**21,499**	19,958	**6,527**	7,643
EXPENSES:				
General and administrative	**5,610**	4,185	**1,822**	1,723
Selling, marketing and distribution	**5,891**	4,146	**2,147**	2,038
Product research and development	**806**	543	**292**	289
Re-organization expenses	**600**	-	**600**	-
Amortization	**1,152**	641	**390**	53
Total operating expenses	**14,059**	9,515	**5,251**	4,103
Income from operations	**7,440**	10,443	**1,276**	3,540
Interest income (expense)	**(2,633)**	(1,709)	**(1,003)**	(832)
Other income	**607**	210	**285**	13
Income before income taxes	**5,414**	8,944	**558**	2,721
Provision for income taxes	**1,981**	3,185	**209**	954
Net income	**3,433**	5,759	**349**	1,767
Retained earnings, beginning of period	**15,262**	7,858	**18,346**	11,850
Retained earnings, end of period	**$ 18,695**	$ 13,617	**$ 18,695**	$ 13,617
Earnings per share - Basic	**0.15**	0.27	**0.02**	0.08
- Fully Diluted	**0.15**	0.26	**0.02**	0.08

CONSOLIDATED STATEMENT OF CASH FLOWS
(thousands) (unaudited)

CASH PROVIDED BY (USED IN):	Nine Month Period ended September 30, **2000**	Nine Month Period ended September 30, 1999	Three Month Period ended September 30, **2000**	Three Month Period ended September 30, 1999
Operating Activities:				
Net income	**$ 3,433**	$ 5,759	**$ 349**	$ 1,767
Items not affecting cash:				
Amortization	**3,823**	2,401	**1,628**	990
Future income taxes	**(91)**	2,293	**(169)**	641
	7,165	10,453	**1,808**	3,398
Changes in non-cash operating working capital balances	**1,811**	698	**1,942**	(259)
	8,976	11,151	**3,750**	3,139
Investing Activities:				
Purchase of capital assets	**(4,540)**	(9,070)	**(2,415)**	(1,967)
Purchase of other assets	**(247)**	(297)	**(66)**	(18)
Acquisition of Acton International	**-**	(4,438)	**-**	-
	(4,787)	(13,805)	**(2,481)**	(1,985)
Financing Activities:				
Payment of other debt	**(2,623)**	(1,921)	**(586)**	(551)
Repayment of term debt	**(1,902)**	(1,125)	**(683)**	(609)
Issuance of share capital	**336**	857	**-**	6
	(4,189)	(2,189)	**(1,269)**	(1,154)
Increase (decrease) in cash for the period	**-**	(4,843)	**-**	-
Cash and short term deposits at the beginning of the period	**-**	4,843	**-**	**-**
Cash and short term deposits at the end of the period	**$ -**	$ -	**$ -**	$ -

SEGMENTED SALES AND EARNINGS INFORMATION
(thousands) (unaudited)

Nine Month Period ended September 30,2000	***Customer Sales excluding* Intersegment**	**Intersegment Revenue**	**Contribution**
Rubber mixing and tire operations	$ 61,541	$ 4,232	$ 8,214
Engineered products subsidiaries	40,730	5,843	1,454
	102,271	10,075	9,668
Unallocated general & administrative expenses			1,621
Interest expense			2,633
Provision for income taxes			1,981
Net income			$ 3,433

Nine Month Period ended September 30, 1999	***Customer Sales excluding* Intersegment**	**Intersegment Revenue**	**Contribution**
Rubber mixing and tire operations	$ 60,334	$ 2,667	$ 8,963
Engineered products subsidiaries	29,954	6,362	2,867
	90,288	9,029	11,830
Unallocated general & administrative expenses			1,177
Interest expense			1,709
Provision for income taxes			3,185
Net income			$ 5,759

Supplementary Information

Nine Month Period ended September 30, 2000	***Customer Sales excluding* Intersegment**	**Intersegment Revenue**	**Contribution**
Rubber mixing	$ 58,015	$ 4,232	$ 10,045
Engineered products subsidiary	39,004	1,165	2,150
	97,019	5,397	12,195
Losses of re-organized divisions			1,927
Re-organization expenses			600
Unallocated general & administrative expenses			1,621
Interest expense			2,633
Provision for income taxes			1,981
Net income			$ 3,433