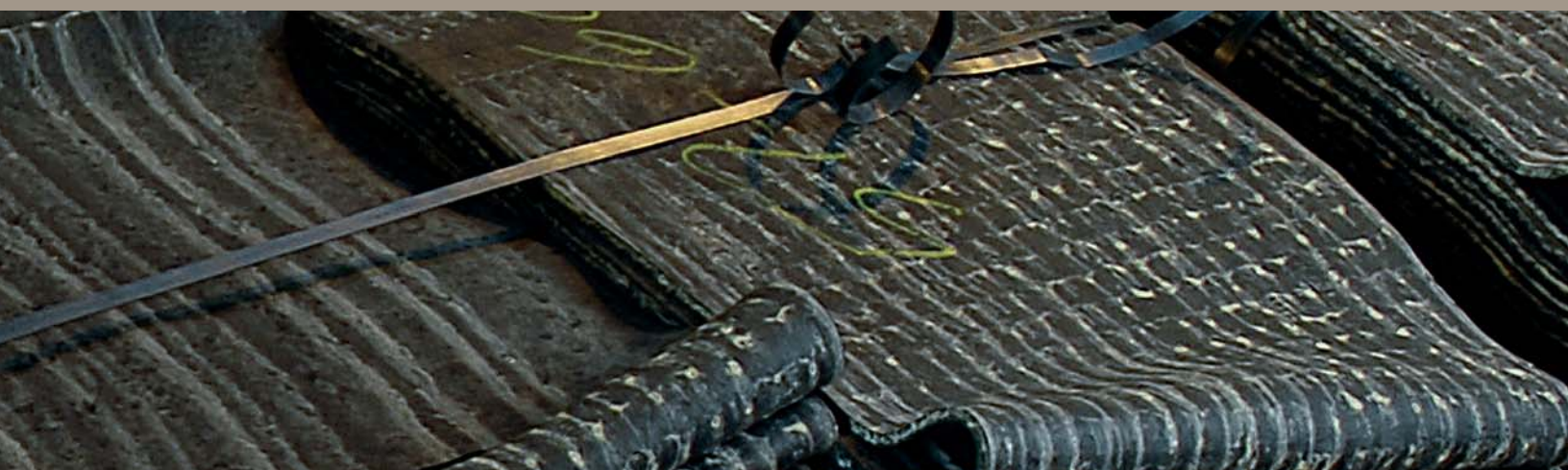




stability. ingenuity. capability.



Q3

# 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.

<b>Business Segments</b>		<b>Q3 2007</b>	<b>Markets</b>
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.	\$40 million	<ul style="list-style-type: none"><li>• 54.6% sales to US</li><li>• Conveyor belts, tires and retreading automotive parts</li></ul>
Military and Industrial Products	Manufacturer of protective wear for military and first response applications. Manufactures extruded, calendered, cushion gum, and compression moulded rubber products.	\$13 million	<ul style="list-style-type: none"><li>• 71% sales to US</li><li>• CBRN footwear, gloves and masks for defence and firefighter</li></ul>
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.	\$6 million	<ul style="list-style-type: none"><li>• 93% sales to US</li><li>• Plastic pads and insulators, and metal rail fastening clips</li></ul>

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## Third Quarter 2007 Results

For the Three and Nine Months Ended September 30

(thousands \$ CDN, except per share and share amounts)	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Net sales	\$ 56,703	\$ 55,681	\$ 175,728	\$ 177,680
Gross margin	6,092	6,943	18,101	24,344
Earnings before interest, taxes & amortization (EBITDA) (Note 1)	3,375	3,999	9,948	14,461
Interest expense	949	888	2,578	2,514
Net income from continuing operations	1,012	1,580	3,090	6,809
Net income (loss) from discontinued operations	139	19	79	(311)
Net income	\$ 1,151	\$ 1,599	\$ 3,169	\$ 6,498
Net income per share, from continuing operations				
- Basic	\$ 0.04	\$ 0.07	\$ 0.13	\$ 0.29
- Diluted	\$ 0.04	\$ 0.07	\$ 0.13	\$ 0.28
Net income per share				
- Basic	\$ 0.05	\$ 0.07	\$ 0.13	\$ 0.28
- Diluted	\$ 0.05	\$ 0.07	\$ 0.13	\$ 0.27
Cash flow (before changes in non-cash working capital) from continuing operations	\$ 1,733	\$ 2,483	\$ 5,379	\$ 8,691
Dividends declared per share	\$ -	\$ -	\$ 0.025	\$ -
Common shares outstanding (millions):				
- Basic	23.8	23.8	23.8	23.5
- Diluted	24.0	24.2	24.0	23.9

### Note 1

EBITDA refers to net earnings from continuing operations determined in accordance with GAAP, before amortization, interest expense and income tax. The Company discloses EBITDA, a financial measurement used by interested parties and investors to monitor the ability of an issuer to generate cash from operations for debt service, financing working capital and capital expenditures and pay dividends. EBITDA 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)	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Income from continuing operations before income taxes	\$ 1,218	\$ 2,027	\$ 3,772	\$ 8,360
Interest expense	949	888	2,578	2,514
Amortization from continuing operations	1,208	1,084	3,598	3,587
EBITDA - continuing operations	\$ 3,375	\$ 3,999	\$ 9,948	\$ 14,461

# To Our Shareholders

Sales for the nine months ended September 30, 2007 amounted to \$175.7 million while Net Income was \$3.2 million or \$0.13 per share.

## AirBoss Rubber Compounding

Net sales increased by 2% for the three month period while the number of pounds sold increased by 3%. Year to date sales have decreased by 2%. Most of this volume reduction was due to short-term weakness in demand in the conveyor belting, solid tire and retreading industries. The Company continues to pursue additional markets which consume large volumes of rubber compounds such as flooring, roofing and hose. We expect to complete trials and add new customers in these markets in the fourth quarter.

Raw materials continue to trade in world markets at the high end of their historical price range but remained relatively stable for the quarter. There was less of a requirement to purchase on the spot market and, as a result, margins recovered to first quarter levels.

Demand for semi-processed rubber products, such as uncured rubber track pre-forms for industrial applications, remained lower than in previous years. Some improvement is forecast by our customers for these products moving forward, however this is not likely to occur until 2008.

There remains a cyclical softness in the rubber industry which is manifested by weak demand in key sectors such as tires and automotive. This has created an excess of rubber mixing capacity similar to that experienced in 2003 and a very competitive marketplace. We have been successful in increasing our market share in certain sectors during this period. We have signed a product development and supply agreement with one industry sector leader and have 3 similar agreements in various stages of finalization.

The Canadian dollar rise has been a challenge but has been addressed with the balance of US and Canadian sales, US dollar purchases of raw materials and increased production in our plant in North Carolina.

## AirBoss-Defense

Sales improved by \$5 million over the prior year as a result of increased orders under existing long-term CBRN ("Chemical, Biological, Radiological and Nuclear") contracts with the US Military as well as new contracts for the supply of rubber pre-forms and strip used for tank track systems repair. This trend is expected to continue for the next 15 months. We also anticipate a long-term agreement to supply gas masks to the Canadian Military to be finalized in the 4th quarter with production to commence early in the first quarter of 2008.

This Division is outperforming expectations with respect to sales and this should help offset the margin erosion on sales to the US Military due to the strengthened Canadian dollar. Strategic initiatives which are underway include the pursuit of distribution alliances in Europe and the US for our First Response products, field testing of the 3rd generation CBRN overboot and bringing increased injection molding capacity online.

→ 250 million pounds  
of rubber annually

## Outlook

The rise of the Canadian dollar during the quarter significantly impacted the profitability of our military products but only had a minor overall impact on our rubber compounding division.

Sales of both military and First Response protective wear in Europe and North America will continue to increase. This trend is expected to continue well into 2008 and the increase in volume should increase margins and offset some of the impact of the rising Canadian dollar on US dollar sales.

Key markets for our rubber compounds, such as conveyor belting and solid tires, improved in the third quarter. We expect a slight short term decline in belting compound orders for the fourth quarter and improvement in other sectors such as OE specialty tire mixing, retreading and flooring.

The Company is increasing market share despite a down cycle in the rubber industry and sees opportunity to strengthen its long term position by pursuing new markets and forming stronger more formal alliances with both suppliers and customers. Orders from new customers will begin to impact operations by the end of fourth quarter. Demand for rubber compound to service the mining and energy generation sectors should continue to increase throughout 2008 and we expect recovery in other markets by mid-year.



**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" or the "Company") for the three and nine month periods ended September 30, 2007 have been prepared as of November 8, 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](http://www.sedar.com) and at the Company's website at [www.airbossofamerica.com](http://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

(thousands, except per share amount)	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
<b>Financial results:</b>				
Net sales	\$ 56,703	\$ 55,681	\$ 175,728	\$ 177,680
Net income from continuing operations	1,012	1,580	3,090	6,809
Net income	1,151	1,599	3,169	6,498
Net income per share - continuing operations				
- Basic	0.04	0.07	0.13	0.29
- Diluted	0.04	0.07	0.13	0.28
Net income per share				
- Basic	0.05	0.07	0.13	0.28
- Diluted	0.05	0.07	0.13	0.27
Operating cash flow used in continuing operations	1,733	2,483	5,379	8,691
Capital expenditures	1,163	1,011	2,655	4,202
Dividend declared per share	-	-	0.025	-
(thousands)	September 30, 2007		December 31, 2006	
<b>Financial Position:</b>				
Total assets	\$ 143,453		\$ 139,216	
Demand loan	24,612		20,807	
Term loan and other debt	17,777		20,600	
Shareholders' equity	66,345		64,075	
Outstanding shares	23,805		23,755	

### Overview

#### 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 sales are denominated in US dollars.

Rubber compounds are utilized in many products, including pneumatic, solid and retread tires, conveyor belting for mining applications, defense products, roofing, flooring, hose 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 raw materials are sourced from world markets and are typically paid for in US dollars. Raw materials represent a majority of the cost of compounds and the ability to source world-wide and recover widely fluctuating prices are key factors in the success of the business. Other key factors affecting performance of the business include maintaining efficient mixing costs, equipment utilization, consistent quality and providing product development capabilities to customers.

The Company believes that it is critical to work closely with the industry leaders in each sector on product development to secure long term success. Accordingly it is in the process of forming strategic alliances with the leaders of key rubber compound consuming sectors.

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

### 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 protective products include rubber overshoes, gloves and gas masks which utilize AirBoss' proprietary rubber compound formulations. AirBoss-Defense also manufactures and sells CBRN firefighter boots and Extreme Cold Weather ("ECW") military footwear.

Approximately 75% of the Division's sales are denominated in US dollars with predominantly Canadian costs so the Canadian versus US dollar exchange rate has a significant impact. The largest customer is the US Military which purchases CBRN products under long term contracts with fixed prices and variable quantities. A key element to the success of these products is their in-field performance both in terms of the length-of-time of effective protection and in their ability to be decontaminated.

The Industrial Products division sells extruded and calendered 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 manufacture of steel clip and the polymer products are outsourced using Company owned tooling.

## RESULTS OF OPERATIONS

### SALES FROM CONTINUING OPERATIONS

Sales revenues from continuing operations increased 1.8% for the quarter and decreased 1.1% for the nine-month year-to-date period.

#### Three months ended September 30

(\$ thousands)		Engineered Products			Total
		Rubber Compounding	AEP and Other	Railway Products	
Net sales	<b>2007</b>	<b>39,848</b>	<b>11,096</b>	<b>5,759</b>	<b>56,703</b>
	2006	39,177	8,983	7,521	55,681
Increase (decrease) \$		671	2,113	(1,762)	1,022
Increase (decrease) %		1.7	23.5	(23.4)	1.8

#### Nine months ended September 30

(\$ thousands)		Engineered Products			Total
		Rubber Compounding	AEP and Other	Railway Products	
Net sales	<b>2007</b>	<b>129,244</b>	<b>31,371</b>	<b>15,113</b>	<b>175,728</b>
	2006	131,740	27,371	18,569	177,680
Increase (decrease) \$		(2,494)	4,000	(3,456)	(1,952)
Increase (decrease) %		(1.9)	14.6	(18.6)	(1.1)

### Rubber Compounding

Net sales dollars increased by 1.7% while unit sales increased by 3% for the quarter ended September 30, 2007 compared to the previous year. This is a slight reversal of the trend which has seen net sales decline by 2.4% year to date.

The major sectors showing year-over-year unit volume increases have been mining, defense and general industrial while declines were experienced in conveyor belting, solid and retread tire and automotive. The declines were, in general, due to weakness in demand in these sectors and not due to major customer loss. Tolling volumes also declined, compared to the previous year, due to the closure of an OE tire plant customer in July 2006. The Company expects the softness in demand in certain markets to continue for the remainder of the year but also anticipates adding important new customers in sectors not previously serviced such as agricultural, roofing, flooring and hose.

Due to the continued weakness in major North American rubber markets, there continues to be an excess of custom mixing capacity and the industry will be very competitive for the remainder of the year.

### AirBoss Engineered Products

Sales increased by \$2.1 million in the third quarter and \$4.0 million or 14.6% compared to the same nine-month period in 2006.

AirBoss-Defense sales increased by \$2.0 million for the quarter and by \$5.2 million year-to-date, compared to the same period in 2006. This was primarily due to increased sales in CBRN footwear and rubber tank track pad pre-forms to the US military. This upward sales trend is expected to accelerate in the remaining three months of 2007 as demand for the products such as CBRN hand wear, footwear and Extreme Cold Weather boots remain strong. The Company also anticipates the signing of a significant long term agreement to supply gas masks to the Canadian Military.

Industrial rubber product sales decreased by \$0.2 million for the quarter and \$5.7 million year-to-date due to significant declines in sales to the rubber track market. This was offset in the second quarter by increases in sales to new customers in the hose market.

### Railway Products

Sales in the quarter were \$1.8 million lower than in 2006 and \$3.4 million year to date. Sales have been impacted by the decrease in the US dollar and by lower volumes of plastic insulators.

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

### GROSS MARGIN

Gross margin for the three-month period ended September 30, 2007 was \$6.1 million, a decrease of \$0.9 million compared to 2006 primarily attributable to higher raw material costs and volume declines in industrial rubber and rail products.

Three months ended September 30		Rubber Compounding	Engineered Products		Total
			AEP	Railway Products	
(\$ thousands)					
Gross Margin	<b>2007</b>	<b>4,170</b>	<b>1,139</b>	<b>783</b>	<b>6,092</b>
	2006	3,816	1,764	1,363	6,943
Increase (decrease) \$		354	(625)	(580)	(851)
% net of sales	<b>2007</b>	<b>10.5%</b>	<b>10.3%</b>	<b>13.6%</b>	<b>10.7%</b>
	2006	9.7%	19.6%	18.1%	12.5%

Nine months ended September 30		Rubber Compounding	Engineered Products		Total
			AEP	Railway Products	
(\$ thousands)					
Gross Margin	<b>2007</b>	<b>12,022</b>	<b>4,231</b>	<b>1,848</b>	<b>18,101</b>
	2006	14,574	6,462	3,308	24,344
Increase (decrease) \$		(2,552)	(2,231)	(1,460)	(6,243)
% net of sales	<b>2007</b>	<b>9.3%</b>	<b>13.5%</b>	<b>12.2%</b>	<b>10.3%</b>
	2006	11.1%	23.6%	17.8%	13.7%

### Rubber Compounding

The increase in gross margin in the third quarter of 2007 compared with the same quarter of 2006 was mainly attributable to a recovery of prior period material cost increases. The increase in the Canadian dollar does not impact the Rubber Compounding division greatly as there is a balance of US dollar input costs, US sales and US based production.

Commodity prices for key raw materials such as natural rubber and synthetic rubber continue to fluctuate in the high end of their historical ranges.

Certain cost reduction initiatives have been put successful in keeping production costs in line with current volumes.

### AirBoss Engineered Products

Gross margin at AEP decreased by \$0.6 million during the third quarter of 2007 compared with third quarter of 2006. The military gross margin decreased by \$0.5 million due primarily to the strengthening of the Canadian dollar which lowered margins on sales to the US. The product mix in the current year also included higher sales of lower margin track pad pre-forms. Margins are expected to increase as sales volumes increase. The Industrial Division gross margin decreased by \$0.2 million compared to the third quarter of 2006 (\$1.4 million year to date) due to the lower volumes of rubber track products.

### Railway Products

Gross margin decreased by \$0.6 million for the quarter (\$1.5 million year to date) from an unfavourable product mix and higher prices from an Australian sub-contractor of rail clips for the South American market.

### EXPENSES

Operating expenses, including other income and interest, for the third quarter ended September 30, 2007 were comparable to 2006.

Three months ended September 30		Rubber Compounding Operations	Engineered Products			Total
			AEP and Other	Railway Products	Unallocated Corporate Costs	
(\$ thousands)						
Operating expenses	<b>2007</b>	<b>2,318</b>	<b>1,619</b>	<b>418</b>	<b>519</b>	<b>4,874</b>
	2006	2,528	1,348	557	483	4,916
Increase (decrease) \$		(210)	271	(139)	36	(42)
% net of sales	<b>2007</b>	<b>5.8%</b>	<b>14.6%</b>	<b>7.3%</b>	<b>N/A</b>	<b>8.6%</b>
	2006	6.5%	15.0%	7.4%	N/A	8.8%

Nine months ended September 30		Rubber Compounding Operations	Engineered Products			Total
			AEP and Other	Railway Products	Unallocated Corporate Costs	
(\$ thousands)						
Operating expenses	<b>2007</b>	<b>6,371</b>	<b>5,246</b>	<b>1,173</b>	<b>1,539</b>	<b>14,329</b>
	2006	8,204	4,849	1,457	1,474	15,984
Increase (decrease) \$		(1,833)	397	(284)	65	(1,655)
% net of sales	<b>2007</b>	<b>4.9%</b>	<b>16.7%</b>	<b>7.8%</b>	<b>N/A</b>	<b>8.2%</b>
	2006	6.2%	17.7%	7.8%	N/A	9.0%

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

### Rubber Compounding

Operating expenses decreased by \$0.2 million in the third quarter 2007 compared with 2006 relating to 0.4 million higher foreign exchange gains from its US operations partially offset by \$0.1 million higher interest charges due to higher working capital balances and additional freight and depreciation costs.

The year-to-date expenses include a \$1.0 million increase in foreign exchange gains, a net reduction in general and administrative expenses of \$0.4 million due to personnel cost reductions, and 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 increased by \$0.3 million for the third quarter ended September 30, 2007 from foreign exchange losses related to the military division.

### Railway Products

The year-to-date expenses were lower year-over-year as a result of less product development (\$0.1 million) and lower bonus charges from reduced profitability (\$0.2 million).

### Unallocated Corporate Costs

Corporate costs for the three and nine months ended September 30, 2007 were comparable to the same period last year.

### INCOME TAX EXPENSE

The Company recorded an income tax expense from continuing operations of \$0.2 million or an effective income tax rate for the quarter of 16.9% compared to \$0.5 million or 22.1% effective tax rate in 2006.

The primary factor contributing to a lower effective tax rate from the marginal tax rate in the third quarter of 2007 include a permanent difference on translating US operations of \$0.3 million

On a year-to-date basis, the income tax expense for the nine-month period ended September 30, 2007 was \$0.7 million or 18.1% effective tax rate compared to \$1.5 million or 18.5% in 2006.

### Net income (loss) from discontinued operations

Net sales and net income from discontinued operations for the quarter were \$0.0 million and \$0.1 million in 2007 compared to \$0.0 million and \$0.3 million in 2006.

### NET INCOME AND EARNINGS PER SHARE

Net income from continuing operations for the quarter and year to date 2007 amounted to \$1.2 million and \$3.8 million compared to \$2.0 million and \$8.4 million in 2006. The basic and fully diluted earnings per share in the quarter were \$0.04 (2006-\$0.07) and \$0.04 (2006-\$0.07) based on basic and fully diluted shares outstanding 23,805,423 (2006-23,755,423) and 23,994,970 (2006-24,240,434) respectively.

### QUARTERLY INFORMATION

(\$ thousands except per share amounts)

Quarter Ended	Net Sales		Net Income (Loss)		Net Income (Loss) Per Share Continuing Operations		Net Income (Loss) Per Share	
	Continuing Operations	Continuing Operations	Total	Basic	Diluted	Basic	Diluted	
September 30, 2007	56,703	1,012	1,151	0.04	0.04	0.05	0.05	
June 30, 2007	59,367	935	868	0.04	0.04	0.04	0.04	
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	1,579	1,598	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	288	0.01	0.01	0.01	0.01	

### 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 of corporate taxes and the recapture of \$0.3 million of option expenses from forfeited stock options.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of liquidity is cash generated from operations. The Company also is able to fund liquidity requirements through its operating line and additional term debt.

### Cash flows from operations

Cash provided from operations before changes in working capital was \$1.7 million for the nine month period ended September 30, 2007 compared to \$2.5 million for the same period in 2006. The change was due to a decrease in net income by \$0.6 million compared to 2006, and higher foreign exchange gains on the re-measurement of us operations.

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

### Non-cash working capital

The investment in non-cash working capital relating to continuing operations was \$40.6 million at September 30, 2007 compared to \$35.5 million in the third quarter of 2006.

The non-cash working capital increased by \$0.8 million in the third quarter of 2007 as follows:

- Accounts receivable increased by \$3.8 million primarily in the defense business due to higher sales
- Inventory decreased \$3.9 million of which \$2.8 million related to the compounding business and local sourcing of certain raw materials and the liquidation of the leather fireboots product line
- Accounts payable decreased \$0.6 million due to the timing of payments.
- Income taxes recoverable increased in the third quarter of 2007 by 0.3 million.

### Cash from discontinued operations

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

### Capital expenditures

Capital expenditures for the quarter ended September 30, 2007 were \$1.0 million primarily for equipment in Kitchener (\$0.3 million), Scotland Neck (\$0.2 million) and AEP (\$0.3 million) compared to \$1.7 million in 2006. A redundant asset was bundled in a lot purchase at an auction and was disposed of in the quarter for proceeds less than \$0.1 million.

On an ongoing basis, the Company invests in capital projects to renew or enhance capacity or productivity of manufacturing equipment, take advantage of growth opportunities, or replace obsolete equipment. During the balance of 2007, the Company expects to spend between \$2 million and \$3 million on its capital projects.

### Other assets

During the third quarter of 2007, less than \$0.1 million was invested in rail clip product development costs.

### Financing

Cash provided by financing activities totalled \$0.3 million for the quarter ended September 30, 2007 compared to a use of \$1.0 million for the same period in 2006. In 2007, the required term debt principal payments are \$0.4 million lower as a result of refinancing the long term debt in October 2006 with a longer amortization period.

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 nine-month period ended September 30, 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.

### Cash tax payments

The Company is required to make scheduled installment payments as prescribed by tax authorities. In Canada, tax installments are based on the second prior year's taxes payable for the first 2 installments and the prior year's taxes payable for the following 10 installments. The Company expects to pay \$0.8 million in Canadian provincial and federal tax installments for the balance of fiscal 2007.

### Forward exchange contracts

The Company has a \$5 million forward contract as a partial economic hedge against U.S. dollar denominated inventory. Forward contracts will be put in place when anticipated net US inflows differ materially from anticipated net US outflows.

### Dividends

A \$0.025 per share dividend was declared in the second quarter that was paid July 25, 2007.

### Outstanding shares

As at November 8, 2007, the Company had 23,805,423 common shares outstanding.

### 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 third quarter was \$22,500 (\$22,500 in 2006).

During the third quarter, the Company paid monthly dues relating to a facility in South Carolina of approximately \$4,700 (\$10,200 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". As well, the company paid \$22,000 for housing expenses and advanced \$30,000 for a housing loan in accordance with the terms of employment. The housing loan is intended to be bridge financing and is repayable on sale of the house.

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

### 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 added to the fair value of the financial liability and are amortized over the term using the effective interest method. The Company has reclassified \$0.1 million of financing fees from other assets to term loan as a result of adopting this standard.

#### ii) Hedges

- All derivatives are categorized as held for trading, 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).

### Recently Issued Accounting Pronouncements

#### Inventories

The new Section 3031 "Inventories", was issued in June 2007 and will replace existing Section 3030 of the same title. It provides guidance with respect to the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The cost of inventories include the costs to purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs and administrative overheads that do not contribute to bringing the inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period incurred. Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories is now required. The cost of the inventories should be based on a first-in, first-out or a weighted average cost formula. Techniques used for the measurement of cost of inventories, such as the retail method or standard cost method, may be used for convenience if the results approximate cost. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of any write-downs recognized as a reduction in expenses.

This standard is effective for fiscal years beginning on or after January 1, 2008. The difference in the measurement of opening inventory may be applied to the opening inventory for the period, with an adjustment to opening retained earnings with no prior periods restated, or retrospectively with a restatement to prior periods in accordance with Section 1506 "Accounting Changes".

The standard is applicable to the Company for the first quarter of 2008. The Company is currently assessing the implications of this standard to identify differences between the current accounting and the new guidance in the standard. In addition to the changes in inventory cost, the Company is reviewing the additional presentation and disclosure requirements which will be required in the consolidated financial statements and/or in the accompanying notes.

#### Capital Disclosures and Financial Instruments - Disclosure and Presentation

In December 2006, the CICA issued three new accounting standards: Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments Disclosure" and Section 3863 "Financial Instruments Presentation".

Section 1535 establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. Enhanced disclosures with respect to the objectives, policies and processes for managing capital and quantitative disclosure about what a company regards as capital are required.

Section 3862 and Section 3863 replace Section 3861 "Financial Instruments - Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments and how these risks are managed. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

These standards are effective for fiscal years beginning on or after October 1, 2007 and therefore the Company will implement them in the first quarter of 2008.

## 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

Sales of CBRN and ECW military and First Response protective wear in both Europe and North America should continue to increase in the fourth quarter. This trend is expected to continue well into 2008 and the increase in volume should increase margins and offset some of the impact of the rising Canadian dollar.

Key markets for our rubber compounds, such as conveyor belting and solid tires, improved marginally in the third quarter. We expect a slight decline in belting compound orders for the fourth quarter and some improvement in other sectors such as OE specialty tire mixing, retreading and flooring. The Company is improving market share during a down cycle in the rubber industry and sees opportunity to strengthen its long term position. A strategic supply and product development has been signed with one of the leading rubber product manufacturers and three others in different industry sectors are in various stages of completion. These should positively impact sales in the next 12 months.

Demand for rubber compounds in certain other traditional rubber markets such as automotive parts is expected to remain weak for the balance of 2007. These account for a smaller percentage of our total business than the industry average but will have the effect of sustaining an industry excess capacity situation and therefore a very competitive marketplace.

Margins should improve in Rubber Compounding with the shifting of volume to the highly efficient Scotland Neck facility to balance foreign exchange considerations and the elimination of certain redundancy costs incurred in the first six months.



**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 and nine month periods ended September 30, 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 September 30, 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 8th day of November, 2007.

## Consolidated Balance Sheets

(thousands \$ CDN)

September 30, 2007

December 31, 2006

(unaudited)

### ASSETS

#### Current assets:

Accounts receivable	\$ 33,533	\$ 25,486
Inventories	26,552	33,099
Prepaid expenses	860	642
Income taxes receivable	2,029	-
Current assets of discontinued operations	328	351
<b>Total current assets</b>	<b>63,302</b>	<b>59,578</b>
Capital assets	54,888	55,620
Assets held for sale	359	359
Goodwill	16,620	16,620
Future income tax assets	3,793	2,748
Other assets	4,491	4,291
<b>Total assets</b>	<b>\$ 143,453</b>	<b>\$ 139,216</b>

### LIABILITIES AND SHAREHOLDERS' EQUITY

#### Current liabilities:

Demand loan	\$ 24,612	\$ 20,807
Accounts payable and accrued liabilities	22,376	20,482
Income taxes payable	-	2,188
Current liabilities of discontinued operations	200	143
Current portion of term loan and other debt	1,356	1,678
<b>Total current liabilities</b>	<b>48,544</b>	<b>45,298</b>
Term loan and other debt	16,421	18,922
Future income tax liabilities	10,257	9,269
Accrued post retirement benefit liability	1,886	1,652
<b>Total liabilities</b>	<b>77,108</b>	<b>75,141</b>

*Commitments and contingencies (note 6)*

#### Shareholders' equity:

Share capital	40,537	40,395
Contributed surplus	1,417	1,240
Accumulated other comprehensive income	(781)	(158)
Retained earnings	25,172	22,598
<b>Total shareholders' equity</b>	<b>66,345</b>	<b>64,075</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 143,453</b>	<b>\$ 139,216</b>

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)	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
<b>NET SALES</b>	<b>\$ 56,703</b>	\$ 55,681	<b>\$ 175,728</b>	\$ 177,680
Cost of sales	<b>50,611</b>	48,738	<b>157,627</b>	153,336
Gross margin	<b>6,092</b>	6,943	<b>18,101</b>	24,344
<b>OPERATING EXPENSES</b>				
General and administrative	<b>2,188</b>	2,044	<b>6,761</b>	7,282
Selling, marketing and distribution	<b>1,609</b>	1,619	<b>5,050</b>	5,404
Product research	<b>198</b>	340	<b>640</b>	1,069
Total operating expenses	<b>3,995</b>	4,003	<b>12,451</b>	13,755
Income before undernoted items	<b>2,097</b>	2,940	<b>5,650</b>	10,589
Other (income) expense	<b>(70)</b>	25	<b>(700)</b>	(285)
Income from continuing operations, before interest expense	<b>2,167</b>	2,915	<b>6,350</b>	10,874
Interest expense	<b>949</b>	888	<b>2,578</b>	2,514
Income from continuing operations, before income taxes	<b>1,218</b>	2,027	<b>3,772</b>	8,360
Provision for income taxes	<b>206</b>	447	<b>682</b>	1,551
Net income from continuing operations	<b>1,012</b>	1,580	<b>3,090</b>	6,809
Income (loss) from discontinued operations, net of tax (note 3)	<b>139</b>	19	<b>79</b>	(311)
Net income	<b>1,151</b>	1,599	<b>3,169</b>	6,498
Retained earnings, beginning of period	<b>24,021</b>	21,007	<b>22,598</b>	16,108
Dividends	-	-	<b>(595)</b>	-
Retained earnings, end of period	<b>\$ 25,172</b>	\$ 22,606	<b>\$ 25,172</b>	\$ 22,606
Net income per share				
From continuing operations				
- Basic	<b>\$ 0.04</b>	\$ 0.07	<b>\$ 0.13</b>	\$ 0.29
- Diluted	<b>\$ 0.04</b>	\$ 0.07	<b>\$ 0.13</b>	\$ 0.28
From net income				
- Basic	<b>\$ 0.05</b>	\$ 0.07	<b>\$ 0.13</b>	\$ 0.28
- Diluted	<b>\$ 0.05</b>	\$ 0.07	<b>\$ 0.13</b>	\$ 0.27

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

(unaudited) (thousands \$ CDN)	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Net Income	<b>\$ 1,151</b>	\$ 1,599	<b>\$ 3,169</b>	\$ 6,498
Other comprehensive loss - net of income tax:				
Change in foreign currency translation losses on self-sustaining foreign operations	<b>(252)</b>	3	<b>(623)</b>	(126)
Comprehensive income	<b>\$ 899</b>	\$ 1,602	<b>\$ 2,546</b>	\$ 6,372

## Consolidated Statements of Cash Flows

(unaudited) (thousands \$ CDN)	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
<b>CASH PROVIDED BY (USED IN):</b>				
<b>Operating Activities:</b>				
Net income from continuing operations	\$ 1,012	\$ 1,580	\$ 3,090	\$ 6,809
Items not affecting cash:				
Amortization	1,208	1,084	3,598	3,587
Loss (gain) on disposal of capital assets	-	2	(42)	2
Future income taxes	(111)	(308)	(57)	(1,863)
Foreign exchange gain	(530)	(16)	(1,672)	(37)
Options expense	76	90	228	15
Post-retirement benefits expense	78	51	234	178
	<b>1,733</b>	<b>2,483</b>	<b>5,379</b>	<b>8,691</b>
Changes in non-cash operating working capital balances	(768)	(2,206)	(4,271)	(11,659)
Net cash provided by (used in) continuing operations	<b>965</b>	<b>277</b>	<b>1,108</b>	<b>(2,968)</b>
Net cash provided by (used in) discontinued operations	<b>50</b>	<b>(132)</b>	<b>159</b>	<b>750</b>
Cash provided by (used in) operating activities	<b>1,015</b>	<b>145</b>	<b>1,267</b>	<b>(2,218)</b>
<b>Investing Activities:</b>				
Purchase of capital assets	(1,163)	(1,011)	(2,655)	(4,202)
Increase in other assets	(127)	(192)	(452)	(990)
Decrease in other assets	-	2,043	-	2,043
Proceeds of disposal of capital assets	-	18	45	18
	<b>(1,290)</b>	<b>858</b>	<b>(3,062)</b>	<b>(3,131)</b>
<b>Financing Activities:</b>				
Net increase (decrease) in demand loan	1,314	(419)	3,639	4,897
Increase in term loan	-	439	-	1,821
Repayment of term loan	(444)	(861)	(1,127)	(2,361)
Settlement of other debt	-	(162)	(213)	(168)
Dividends paid	(595)	-	(595)	-
Issuance of share capital	-	-	91	1,160
Cash provided by (used in) financing activities	<b>275</b>	<b>(1,003)</b>	<b>1,795</b>	<b>5,349</b>
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	\$ -	\$ -	\$ -	\$ -
<b>Supplementary Cash Flow Information:</b>				
Cash Interest paid	\$ 795	\$ 686	\$ 2,355	\$ 2,380
Cash income taxes remitted	1,284	945	5,366	3,095
Transfer of assets from discontinued operations	-	-	-	61

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

Three and nine months ended September 30, 2007 and 2006

### 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. 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 as 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.

Financing fees relating to the negotiation of the term loan are added to the fair value of the financial liability and are amortized over the term using the effective interest method. The Company has reclassified \$0.1 million of financing fees from other assets to term loan as a result of adopting this standard.

#### ii) Hedges

- All derivatives are categorized as held for trading, 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).

## Notes to Consolidated Financial Statements (cont'd)

### Recently Issued Accounting Pronouncements

#### Inventories

The new Section 3031 "Inventories", was issued in June 2007 and will replace existing Section 3030 of the same title. It provides guidance with respect to the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The cost of inventories include the costs to purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs and administrative overheads that do not contribute to bringing the inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period incurred. Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories is now required. The cost of the inventories should be based on a first-in, first-out or a weighted average cost formula. Techniques used for the measurement of cost of inventories, such as the retail method or standard cost method, may be used for convenience if the results approximate cost. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of any write-downs recognized as a reduction in expenses.

This standard is effective for fiscal years beginning on or after January 1, 2008. The difference in the measurement of opening inventory may be applied to the opening inventory for the period, with an adjustment to opening retained earnings with no prior periods restated, or retrospectively with a restatement to prior periods in accordance with Section 1506 "Accounting Changes".

The standard is applicable to the Company for the first quarter of 2008. The Company is currently assessing the implications of this standard to identify differences between the current accounting and the new guidance in the standard. In addition to the changes in inventory cost, the Company is reviewing the additional presentation and disclosure requirements which will be required in the consolidated financial statements and/or in the accompanying notes.

#### Capital Disclosures and Financial Instruments - Disclosure and Presentation

In December 2006, the CICA issued three new accounting standards: Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments Disclosure" and Section 3863 "Financial Instruments Presentation".

Section 1535 establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. Enhanced disclosures with respect to the objectives, policies and processes for managing capital and quantitative disclosure about what a company regards as capital are required.

Section 3862 and Section 3863 replace Section 3861 "Financial Instruments - Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments and how these risks are managed. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

These standards are effective for fiscal years beginning on or after October 1, 2007 and therefore the Company will implement them in the first quarter of 2008.

### NOTE 3 DISCONTINUED OPERATIONS

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

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Net sales	\$ 3	\$ 12	\$ 16	\$ 372
Income (loss) before tax	201	162	218	(359)
Net income (loss)	141	19	81	(311)
Amortization	-	-	-	44

### NOTE 4 STOCK OPTIONS

During the third quarter ended September 30, 2007, the Company recorded stock-based compensation of \$76,000 (\$90,000 expense in 2006) relating to prior year option grants in general and administrative expenses of the statement of income. For the nine month year-to-date period, the expense was \$228,000 compared to \$15,000 in 2006.

No options were granted in the first and second quarters of 2007.

### NOTE 5 FUTURE RETIREMENT BENEFITS

During the three-month periods ended September 30, 2007 and 2006, the Company's future retirement benefit expenses were \$78,000 and \$51,000 respectively. For the nine-month year-to-date period, the expense was \$234,000 compared to \$178,000 in 2006.

### 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 September 30, 2007 (\$22,500 in 2006). The Company paid monthly dues relating to a facility in South Carolina of approximately \$4,700 for the three-month period (\$10,200 in 2006) and \$15,200 for the nine-month year-to-date period (\$21,000 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". As well, the Company paid \$23,000 for housing expenses and advanced \$30,000 for a housing loan in accordance with the terms of employment. The housing loan is intended to be bridge financing and is repayable on sale of the house.

#### Forward Exchange Contracts

The Company has a \$5 million forward contract as a partial economic hedge against U.S. dollar denominated inventory.

Notes to Consolidated Financial Statements (cont'd)

**NOTE 7 SEGMENTED INFORMATION**

	Canada	Sales excluding inter-company		Total	Inter-company
		USA	Other		
<b>Three months ended September 2007</b>					
Rubber Compounding Operations	17,384	21,772	692	39,848	634
AEP and Other	2,385	7,870	841	11,096	1,444
Railway Products	-	5,352	407	5,759	-
Total	19,769	34,994	1,940	56,703	2,078

<b>Three months ended September 2006</b>					
Rubber Compounding Operations	18,184	20,968	24	39,177	244
AEP and Other	1,327	6,771	886	8,984	1,687
Railway Products	-	6,563	958	7,521	-
Total	19,511	34,302	1,868	55,681	1,932

	Rubber Compounding Operations	AEP and Other	Railway Products	Corporate and Inter-company Eliminations	Total
<b>Three months ended September 2007</b>					
Sales	40,482	12,540	5,759	(2,078)	56,703
Cost of sales	36,312	11,401	4,976	(2,078)	50,611
	4,170	1,139	783	-	6,092
Operating expenses	2,318	1,619	418	519	4,874
Income before income taxes	1,852	(480)	365	(519)	1,218
Provision for income taxes					(206)
Net income from continuing operations					1,012
Purchase of capital assets	619	418	126	-	1,163
Amortization of capital assets and other assets	735	357	85	31	1,208
Goodwill	7,944	7,182	1,494	-	16,620
<b>Three months ended September 2006</b>					
Sales	39,421	10,671	7,521	(1,932)	55,681
Cost of sales	35,605	8,907	6,158	(1,932)	48,738
	3,816	1,764	1,363	-	6,943
Operating expenses	2,528	1,348	557	483	4,916
Income before income taxes	1,288	416	806	(483)	2,027
Provision for income taxes					(447)
Net income from continuing operations					1,580
Purchase of capital assets	713	258	39	1	1,011
Amortization of capital assets and other assets	595	345	79	65	1,084
Goodwill	7,944	7,182	1,494	-	16,620

## Notes to Consolidated Financial Statements (cont'd)

	Canada	Sales excluding inter-company		Total	Inter-company
		USA	Other		
<b>Nine months ended September 2007</b>					
Rubber Compounding Operations	59,431	68,168	1,645	129,244	1,321
AEP and Other	6,781	22,244	2,346	31,371	4,716
Railway Products	-	14,025	1,088	15,113	-
Total	66,212	104,437	5,079	175,728	6,037
<b>Nine months ended September 2006</b>					
Rubber Compounding Operations	60,834	70,405	501	131,740	1,220
AEP and Other	5,948	19,729	1,694	27,371	8,705
Railway Products	-	16,901	1,668	18,569	-
Total	66,782	107,035	3,863	177,680	9,925
<b>Income Statement Details</b>					
	Rubber Compounding Operations	AEP and Other	Railway Products	Corporate and Inter-company Eliminations	Total
<b>Nine months ended September 2007</b>					
Sales	130,565	36,087	15,113	(6,037)	175,728
Cost of sales	118,543	31,856	13,265	(6,037)	157,627
Operating expenses	12,022	4,231	1,848	-	18,101
	6,371	5,246	1,173	1,539	14,329
Income before income taxes	5,651	(1,015)	675	(1,539)	3,772
Provision for income taxes					(682)
Net income from continuing operations					3,090
<b>Assets Employed</b>					
Assets employed					
Canada	73,795	43,747	-	1,805	119,347
US	18,485	-	5,293	-	23,778
Total	92,280	43,747	5,293	1,805	143,125
Purchase of capital assets	1,549	853	253	-	2,655
Amortization of capital assets and other assets	2,191	1,053	254	100	3,598
Goodwill	7,944	7,182	1,494	-	16,620
<b>Nine months ended September 2006</b>					
Sales	132,960	36,076	18,569	(9,925)	177,680
Cost of sales	118,386	29,614	15,261	(9,925)	153,336
Operating expenses	14,574	6,462	3,308	-	24,344
	8,204	4,849	1,457	1,474	15,984
Income before income taxes	6,370	1,613	1,851	(1,474)	8,360
Provision for income taxes					(1,551)
Net income from continuing operations					6,809
<b>Assets Employed</b>					
Assets employed					
Canada	70,028	42,344	-	1,001	113,373
US	14,746	-	7,811	-	22,557
Total	84,774	42,344	7,811	1,001	135,930
Purchase of capital assets	2,849	1,100	246	7	4,202
Amortization of capital assets and other assets	1,958	1,126	229	274	3,587
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 September 30, 2007, Foreign exchange contracts not eligible for hedge accounting are included in other assets at a fair value of \$0.0 million.

AirBoss of America Corp.

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President and Chief Executive Officer:  
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Vice-President Finance and CFO:  
Stephen W. Richards

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**AirBoss Rubber Compounding**

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Robert Dodd

Vice-President Sales and Marketing:  
John Tomins

Vice-President of Supply Chain Management:  
John Bergman

**SUBSIDIARIES**

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Divisional President, AirBoss-Defense:  
Earl Laurie

Sales Manager – Industrial Products:  
Marcel Courtemanche

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Plant Manager:  
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President:  
Robert (Bob) Magnuson

Vice-President:  
Jose Mediavilla



**AirBoss of America Corp.**