From chemistry, to compound, to application

Q2

AirBoss of America Corp. Second Quarter Interim Report 2008

Contents

‘08

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

Rubber Compounding

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

Military and Industrial Products

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

Railway Products

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

Earnings before interest and amortization ("EBITDA") increased by 104% to $5.9 million for the second quarter compared to 2007 and by 44% to $9.5 million for the six-month period ended June 30, 2008. Earnings per share for the quarter surpassed last year by $0.07 or 175% and six months year-to-date by $0.08 or 100%. Sales for the three-month period ended June 30, 2008 increased by $9.5 million or 16% compared to 2007.

AirBoss-Defense

Sales for the six-month period of the Defense division have increased by over 70 % to $19.8 million compared to the same period in the previous year. These results are slightly ahead of plan. The company anticipates this strong performance to continue for the remainder of the year as over 90% of plan volumes are now covered by issued orders.

Strong sales of the Company's Chemical, Biological, Radiological and Nuclear ("CBRN") protective wear account for most of the improved performance. These sales have been augmented by sales of military vehicle rubber repair products. Volumes of these repair products are expected to decline over the second half of the year; however, gas mask sales will replace this volume.

The increased sales volumes and improved manufacturing efficiencies from higher volumes and constant manufacturing levels have helped to improve margins and counteract the impact of the strong Canadian dollar. This has also had a positive impact on the industrial rubber products division who is a key supplier to the military division.

Research and development is continuing with joint government projects to develop next generation CBRN compounds. We have also finalized designs and ordered tooling for the new CBRN boot which we will begin to produce in 2009. This product will result in further improvements in performance to the current boot which already outperforms the competition in this market.

AirBoss Rubber Compounding

Sales for the quarter increased by 9.5 % compared to 2007. Most of this increase was attributable to the recovery of raw material cost increases. In total, volumes increased by 1% as market trends which were experienced in the first quarter continued. Significant increases in sales of compounds to the mining and defense sectors were offset by declines in the belting and automotive. The Company anticipates this to continue in the third quarter with the potential to increase volumes as market segments recover.

Raw material inflation continued to be the most significant impact factor due to the size and speed of the price increases. Supply shortages, currency exchange, oil prices and emerging economies continue to impact key materials such as synthetic rubber, carbon black and chemicals. Margins per pound remained stable and declined slightly as a percentage of sales as the material increases were factored into sales prices.

This environment has resulted in increased inventory as we attempt to ensure availability of key ingredients and shield our customers, to the extent practical, from the worst of the fluctuations. It is expected that synthetic rubber will continue to increase and prices will remain high throughout the balance of 2008 and well into 2009. Natural rubber is expected to retreat from record highs later this year but may continue to be influenced by the synthetic market. Until raw material prices stabilize the market will continue to be unsettled.

To Our Shareholders (cont’d)

Outlook

The sales outlook remains strong for the third quarter for both the AirBoss-Defense and Rubber Compounding Divisions. There is the potential for further price increases in the second half in certain sectors in the compounding business and in non-North American protective wear markets in the defense business.

Third quarter raw material supplies are largely secured, however, prices for certain materials for fourth quarter delivery cannot be fixed at the current time.

We are pleased with improvements in manufacturing efficiencies in defense, industrial rubber products and at Scotland Neck and believe that these can be maintained or improved further.

The third quarter should further consolidate the gains we have made in the rubber businesses in the current quarter despite the difficult economies and a volatile world commodity market.

P.G. Schoch
Chairman

R.L. Hagerman
President and CEO

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 six-month periods ended June 30, 2008 have been prepared as of August 12, 2008 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 20 to 22.

Highlights

Selected Financial Information

- Sales for 2nd Quarter increase by 16%
- EBITDA increases by 104%, largely due to higher volume at AirBoss-Defense

	Three months ended June 30		Six months ended June 30	
($ thousands, except per share amount)	**2008**	2007	**2008**	2007
Financial results:				
Net sales	**$ 68,913**	$ 59,367	**$ 127,891**	$ 119,024
Net income	**2,731**	868	**3,703**	2,018
Net income per share				
- Basic and Diluted	**0.11**	0.04	**0.16**	0.08
EBITDA (non-GAAP financial measure)	**5,886**	2,880	**9,462**	6,568
Operating cash flow provided by (used in) operations	**(3,287)**	6,962	**(1,736)**	252
Capital expenditures	**1,811**	1,176	**2,382**	1,492
Dividends declared per share	**0.025**	0.025	**0.025**	0.025

($ thousands)	**June 30, 2008**	December 31, 2007
Financial Position:		
Total assets	**$ 157,739**	$ 138,536
Demand loan	**26,481**	20,893
Term loan and other debt	**16,999**	17,444
Shareholders' equity	**70,094**	66,727
Outstanding shares	**23,805**	23,805

Non-GAAP Financial measure

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

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

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

A reconciliation of this measure is presented below:

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2008**	2007	**2008**	2007
EBITDA:				
Income before income taxes	**$ 3,863**	$ 819	**$ 5,464**	$ 2,572
Net financing interest expense	**625**	823	**1,322**	1,604
Depreciation and amortization	**1,398**	1,238	**2,676**	2,392
EBITDA	**$ 5,886**	$ 2,880	**$ 9,462**	$ 6,568

RESULTS OF OPERATIONS

SALES FROM CONTINUING OPERATIONS

Sales revenues from continuing operations increased 16.1% for the quarter and 7.4% for the six-month year-to-date period.

Three months ended June 30

			Engineered Products		
($ thousands)		Rubber Compounding	AEP & Other	Railway Products	Total
Net sales	**2008**	**48,773**	**15,849**	**4,291**	**68,913**
	2007	44,520	9,989	4,858	59,367
Increase (decrease) $		4,253	5,860	(567)	9,546
Increase (decrease) %		9.6%	58.7%	(11.7)%	16.1%

Six months ended June 30

			Engineered Products		
($ thousands)		Rubber Compounding	AEP & Other	Railway Products	Total
Net sales	**2008**	**90,107**	**29,600**	**8,184**	**127,891**
	2007	89,397	20,275	9,352	119,024
Increase (decrease) $		710	9,325	(1,168)	8,867
Increase (decrease) %		0.8%	46.0%	(12.5)%	7.4%

Rubber Compounding

Unit sales volumes increased by less than 1% for the quarter and year-to-date compared to the same periods last year. Volume increases were experienced in the mining and defense sectors offset declines in automotive and belting. This trend is expected to continue into the third quarter with the potential for increased volumes in recovering sectors.

Sales prices will be dictated by raw material costs which have not been determined for the fourth quarter.

Excess capacity and rising material costs will continue to exert competitive pressures on volumes for the remainder of the year.

AirBoss Engineered Products

Sales increased by $5.9 million in the second quarter and $9.3 million or 46% compared to the same six-month period in 2007.

AirBoss-Defense sales increased by $5.1 million or 196% for the quarter and $8.5 million or 74% year-to-date over the same period in 2007 primarily due to increased sales in CBRN protective wear (including C-4 gas masks) and rubber repair items for military vehicles.

The industrial rubber product sales increased by $0.7 million for the quarter as a result of sales to new customers.

Railway Products

Sales decreased by $0.6 million in the quarter compared to 2007 on lower volumes.

GROSS MARGIN

Gross margin for the three-month period ended June 30, 2008 was $8.4 million, an increase of $3.1 million compared to 2007 primarily due to the AirBoss-Defense division of AirBoss Engineered Products.

Three months ended June 30

($ thousands)		Rubber Compounding	Engineered Products: AEP	Engineered Products: Railway Products	Total
Gross Margin	**2008**	**4,089**	**3,762**	**548**	**8,399**
	2007	3,493	1,246	513	5,252
Increase $		596	2,516	35	3,147
% net of sales	**2008**	**8.4**	**23.7**	**12.8**	**12.2**
	2007	7.8	12.5	10.6	8.8

Six months ended June 30

($ thousands)		Rubber Compounding	Engineered Products: AEP	Engineered Products: Railway Products	Total
Gross Margin	**2008**	**6,993**	**6,510**	**954**	**14,457**
	2007	7,093	3,092	1,063	11,248
Increase (decrease) $		(100)	3,418	(109)	3,209
% net of sales	**2008**	**7.8**	**22.0**	**11.7**	**11.3**
	2007	7.9	15.3	11.4	9.5

Rubber Compounding

The gross margin for the six months ended June 30 was virtually unchanged from the prior year despite the volatility of certain key raw materials, exchange fluctuations and customer mix changes.

Commodity prices for key raw materials such as synthetic rubber and carbon black are forecasted to continue to rise for the remainder of the year. Production efficiency improvements have offset inflationary effects on manufacturing costs.

AirBoss Engineered Products

Gross margin at AEP increased by $2.5 million during the second quarter of 2008 compared with 2007. Year-to-date margins as a percentage of sales have improved by 6.7% due to the efficiencies of higher volumes and a favourable product mix.

Railway Products

Gross margin decreased by $0.1 million for the six-month period from higher prices from an Australian sub-contractor of rail clips.

EXPENSES

Three months ended June 30

($ thousands)		Rubber Compounding Operations	Engineered Products: AEP & Other	Engineered Products: Railway Products	Unallocated Corporate Costs	Total
Operating expenses	**2008**	**1,855**	**1,564**	**456**	**661**	**4,536**
	2007	1,613	1,982	383	455	4,433
Increase (decrease) $		242	(418)	73	206	103
% net of sales	**2008**	**3.8**	**9.9**	**10.6**	**N/A**	**6.6**
	2007	3.6	19.8	7.9	N/A	7.5

Six months ended June 30

($ thousands)		Rubber Compounding Operations	Engineered Products: AEP & Other	Engineered Products: Railway Products	Unallocated Corporate Costs	Total
Operating expenses	**2008**	**4,615**	**3,199**	**789**	**390**	**8,993**
	2007	3,293	3,609	755	1,019	8,676
Increase (decrease) $		1,322	(410)	34	(629)	317
% net of sales	**2008**	**5.1**	**10.8**	**9.6**	**N/A**	**7.0**
	2007	3.7	17.8	8.1	N/A	7.3

Rubber Compounding
Q2 2007 operating expenses were $0.2 million lower than Q2 2008 as they included higher foreign exchange gains from US operations ($0.7 million) offset by severance charges of ($0.3 million) and a higher interest charge ($0.2 million).

AirBoss Engineered Products
AEP operating costs in the second quarter ended June 30, 2007 included $0.3 million in foreign exchange losses.

Railway Products
The expenses were comparable year over year.

Unallocated Corporate Costs
Corporate costs in the quarter ended June 30, 2008 were $0.2 million higher than last year relating to salaries ($0.1 million), option costs, capital tax and professional fees. The year-to-date balances include $0.8 million foreign exchange gains earned in the first quarter.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $0.6 million or an effective income tax rate for the quarter of 29.3% (recovery of 6% in 2007).

The primary factor contributing to a higher effective tax rate:

- 2007 included $0.3 million foreign exchange translation losses in US entities not subject to tax.
- 2008 included $140k tax filing differences relating to R&D tax credits.

NET INCOME AND EARNINGS PER SHARE

Net income in 2008 amounted to $2.7 million and $0.9 million in 2007. The basic and fully diluted earnings per share in the quarter were $0.11 (2007-$0.04) based on basic and fully diluted shares outstanding 23,805 (2007-23,788) and 23,805 (2007-24,034) respectively.

QUARTERLY INFORMATION

($ thousands except per share amounts)

Quarter Ended	Net Sales: Continuing Operations	Net Income (Loss): Continuing Operations	Net Income (Loss): Total	Net Income (Loss) Per Share: Basic	Net Income (Loss) Per Share: Diluted
June 30, 2008	68,913	2,731	2,731	0.11	0.11
March 31, 2008	58,978	972	972	0.04	0.04
December 31, 2007	51,364	945	945	0.04	0.04
September 30, 2007	56,704	1,151	1,151	0.05	0.05
June 30, 2007	59,368	868	868	0.04	0.04
March 31, 2007	59,656	1,150	1,150	0.05	0.05
December 31, 2006	52,949	(95)	(8)	0.00	0.00
September 30, 2006	55,681	1,580	1,599	0.07	0.07

Items impacting comparability of quarters

- The fourth quarter of 2007 included $0.7 million reduction of corporate taxes.
- The first quarter of 2007 reflected lower income from a temporary reduction in compounding volumes partially offset by $0.6 million award of damages from a successful class action lawsuit.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operations

AirBoss generated $3.9 million in operating cash flows before changes in working capital compared to $1.8 million in 2007 from higher net income.

Non-cash working capital (update)

The investment in non-cash working capital relating to continuing operations increased by $7.1 million in the quarter as follows:

Accounts receivable increased by $4.3 million due to:

- Rubber Compounding receivables increased $2.3 million from higher sales
- AEP receivables increased $2.2 million from higher defense

Inventories increased by $8 million due to the timing of receipts:

- Rubber Compounding increased $7.8 million primarily relating to additional volume requirements as well as cost increases

Accounts payable increased by $ 4.7 million:

- Rubber Compounding $5.4 million due to higher volumes and inventory requirements
- Railway decreased $ 0.5 million from a procurement timing difference

Taxes receivable decreased $1.3 million as the Company offset 2007 excess installments to its 2008 fiscal year.

Capital expenditures

Capital expenditures were $1.8 million for the quarter and $2.4 million year-to-date compared to $1.2 million and $1.5 million respectively in 2007.

- Rubber Compounding spent $1.4 million for various manufacturing projects
- AEP incurred $0.6 million for infrastructure improvements, $0.1 million to implement rubber strip capabilities, and $0.1 million on defense equipment and tooling
- Railway spent $0.1 million on tooling

Other assets

During the first quarter of 2008, $0.2 million was deposited in escrow. In the second quarter, forward contracts were re-measured by $0.1 million.

Financing

The Company expects to fund its 2008 operating cash requirements, including required working capital investments, capital expenditures, and scheduled debt repayments from cash on hand, cash flow from operations and committed borrowing capacity.

Commitments and contractual obligations

The Company's contractual obligations as at December 31, 2007 are described on page 18 in the Management's Discussion and Analysis of Company's 2007 Annual Report. For the six-month period ended June 30, 2008, the Company did not enter into any material contractual obligations outside the normal course of business.

Purchase obligations include enforceable and legally binding commitments to purchase raw materials, services and capital expenditures in the normal course of business. Capital expenditures can be financed with additional drawings against a term facility.

Forward exchange contracts

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

During the second quarter of 2008, the Company entered into a forward contract at an average rate of 1.0182 on a multiple delivery window forward basis. At June 30, 2008, the Company has contracts to sell US $3 million between September and November, 2008.

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 second quarter was $22,500 ($22,500 in 2007).

During the second quarter, the Company paid monthly dues relating to a facility in South Carolina of approximately $6,300 ($5,100 in 2007) to a company in which the Chairman is an officer.

The Company provided a $0.1 million share purchase loan in 2006 to an employee due June 15, 2009 bearing interest at 5% annually with full recourse and is included in the financial statements under the caption "other assets".

Dividends
A $0.025 per share dividend was declared in the quarter that was paid July 24, 2008.

Outstanding shares
As at August 12, 2008, the Company had 23,805,423 common shares outstanding.

CHANGES IN ACCOUNTING POLICIES

Commencing January 1, 2008, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (the “CICA”) as follows:

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

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

The standard is applicable to the Company for the first quarter of 2008 and has had no material impact on the results.

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

Section 1535 establishes guidelines for the disclosure of information regarding a company’s capital and how it is managed. Enhanced disclosures with respect to the objectives, policies and processes for managing capital and quantitative disclosure about what a company regards as capital are required. Our disclosure is included in Note 7 to the financial statements.

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

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

Management's Responsibility for Financial Reporting

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent interim period, there have been no changes in the Company's policies and procedures and other processes that comprise its internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

OUTLOOK

The sales outlook remains strong for the third quarter for both the AirBoss-Defense and Rubber Compounding Divisions. There is the potential for further increases in the second half in certain sectors in the compounding business and in non-North American protective wear markets in the defense business.

Third quarter raw material supplies are largely secured, however, prices for certain materials for fourth quarter delivery cannot be fixed at the current time.

We are pleased with improvements in manufacturing efficiencies in AirBoss-Defense, industrial rubber products and at Scotland Neck and believe that these can be maintained or improved further.

The third quarter should further consolidate the gains we have made in the rubber businesses in the current quarter despite the difficult economies and a volatile world commodity market.

R.L. Hagerman
President and Chief Executive Officer

S.W. Richards
Vice-President Finance and CFO

Consolidated Balance Sheets

(thousands $ CDN)	June 30, 2008 (unaudited)	December 31, 2007
ASSETS		
Current assets:		
Accounts receivable	**$ 38,388**	$ 29,346
Inventories	**35,454**	24,181
Prepaid expenses	**1,442**	1,102
Income taxes receivable	**244**	2,322
Total current assets	**75,528**	56,951
Capital assets	**56,009**	56,085
Goodwill	**16,620**	16,620
Future income tax assets	**4,795**	4,258
Other assets	**4,787**	4,622
Total assets	**$ 157,739**	$ 138,536
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Demand loan	**$ 26,481**	$ 20,893
Accounts payable and accrued liabilities	**31,898**	21,239
Dividends payable	**595**	595
Current portion of term loan and other debt	**1,375**	1,361
Total current liabilities	**60,349**	44,088
Term loan and other debt	**15,624**	16,083
Future income tax liabilities	**9,556**	9,673
Accrued post retirement benefit liability	**2,116**	1,965
Total liabilities	**87,645**	71,809
Commitments and contingencies (Note 5)		
Shareholders’ equity:		
Share capital	**40,537**	40,537
Contributed surplus	**1,684**	1,491
Accumulated other comprehensive loss	**(757)**	(823)
Retained earnings	**28,630**	25,522
Total shareholders’ equity	**70,094**	66,727
Total liabilities and shareholders’ equity	**$ 157,739**	$ 138,536

See accompanying notes to consolidated financial statements.

On behalf of the Board

Robert L. Hagerman
Director

Robert L. McLeish
Director

Consolidated Statements of Income and Retained Earnings

(unaudited) (thousands $ CDN, except per share amounts)	Three months ended June 30 2008	2007 (note 1)	Six months ended June 30 2008	2007 (note 1)
NET SALES	**$ 68,913**	$ 59,367	**$ 127,891**	$ 119,024
Cost of sales	**60,514**	54,115	**113,434**	107,776
Gross margin	**8,399**	5,252	**14,457**	11,248
OPERATING EXPENSES				
General and administrative	**2,540**	2,645	**4,778**	5,147
Selling, marketing and distribution	**1,312**	1,311	**2,635**	2,681
Product research	**276**	240	**586**	441
Total operating expenses	**4,128**	4,196	**7,999**	8,269
Income before undernoted items	**4,271**	1,056	**6,458**	2,979
Other income	**(217)**	(586)	**(328)**	(1,197)
Income from continuing operations, before interest expense	**4,488**	1,642	**6,786**	4,176
Interest expense	**625**	823	**1,322**	1,604
Income from continuing operations, before income taxes	**3,863**	819	**5,464**	2,572
Provision for income taxes	**1,132**	(49)	**1,761**	554
Net income	**2,731**	868	**3,703**	2,018
Dividends	**(595)**	(595)	**(595)**	(595)
Retained earnings, beginning of period	**26,494**	23,748	**25,522**	22,598
Retained earnings, end of period	**$ 28,630**	$ 24,021	**$ 28,630**	$ 24,021
From net income - Basic and Diluted	**$ 0.11**	$ 0.04	**$ 0.16**	$ 0.08

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income

(unaudited) (thousands $ CDN)	Three months ended June 30 2008	2007	Six months ended June 30 2008	2007
Net Income	**$ 2,731**	$ 868	**3,703**	$ 2,018
Other comprehensive loss - net of income tax:				
Change in foreign currency translation losses on self-sustaining foreign operations	**(45)**	(329)	**66**	(371)
Comprehensive income	**$ 2,686**	$ 539	**3,769**	$ 1,647
Accumulated other comprehensive loss, beginning of period	**$ (712)**	$ (200)	**$ (823)**	$ (158)
Accumulated other comprehensive income (loss) - net of income tax	**(45)**	(329)	**66**	(371)
Accumulated other comprehensive loss, end of period	**$ (757)**	$ (529)	**$ (757)**	$ (529)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(unaudited) (thousands $ CDN)	Three months ended June 30 2008	Three months ended June 30 2007	Six months ended June 30 2008	Six months ended June 30 2007
CASH PROVIDED BY (USED IN):				
Operating Activities:				
Net income from operations	**$ 2,731**	$ 868	**$ 3,703**	2,018
Items not affecting cash:				
Amortization	**1,398**	1,238	**2,676**	2,392
Gain on disposal of capital assets	**-**	(42)	**-**	(42)
Future income taxes	**(343)**	308	**(654)**	54
Foreign exchange (gain) loss	**(130)**	(752)	**95**	(1,142)
Options expense	**129**	75	**193**	152
Post-retirement benefits expense	**77**	79	**151**	156
	3,862	1,774	**6,164**	3,588
Changes in non-cash operating working capital balances	**(7,149)**	5,188	**(7,900)**	(3,336)
Net cash provided by (used in) operating activities	**(3,287)**	6,962	**(1,736)**	252
Cash provided by (used in) operating activities	**(3,287)**	6,962	**(1,736)**	252
Investing Activities:				
Purchase of capital assets	**(1,811)**	(1,176)	**(2,382)**	(1,492)
Proceeds of disposal of capital assets	**-**	45	**-**	45
Increase in other assets	**(109)**	(135)	**(263)**	(325)
Cash used in investing activities	**(1,920)**	(1,266)	**(2,645)**	(1,772)
Financing Activities:				
Net increase (decrease) in demand loan	**5,526**	(5,232)	**5,609**	2,325
Increase in term loan	**-**	347	**-**	-
Repayment of term loan	**(319)**	(683)	**(633)**	(683)
Settlement of other debt	**-**	(6)	**-**	-
Dividends paid	**-**	(213)	**(595)**	(213)
Issuance of share capital	**-**	91	**-**	91
Cash provided by (used in) financing activities	**5,207**	(5,696)	**4,381**	1,520
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	**$ 719**	$ 809	**$ 1,559**	$ 1,560
Cash income taxes remitted	**148**	1,094	**577**	4,082

See accompanying notes to consolidated financial statements.

Three and six months ended June 30, 2008 and 2007

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These unaudited interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries (collectively, the "Company"). Intercompany balances and transactions have been eliminated upon consolidation. The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for financial statements, except that certain disclosures required for annual financial statements have not been included. Accordingly, these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2007, except as noted below. The unaudited interim consolidated financial statements have been prepared on a basis consistent with the policies set out in the Company's consolidated annual financial statements for fiscal 2007, except as described in note 2. Certain comparative numbers have been reclassified to conform with the current years presentation.

Seasonality

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

NOTE 2 CHANGES IN ACCOUNTING POLICIES

Commencing January 1, 2008, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (the "CICA") as follows:

Inventories

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

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

The standard is applicable to the Company for the first quarter of 2008 and has had no material impact on the results.

Capital Disclosures and Financial Instruments - Disclosure and Presentation

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

Section 1535 establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. Enhanced disclosures with respect to the objectives, policies and processes for managing capital and quantitative disclosure about what a company regards as capital are required. Our disclosure is included in Note 7 to the financial statements.

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Goodwill and Intangible Assets

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

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

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

International Financial Reporting Standards

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

NOTE 3 STOCK OPTIONS

During the second quarter of 2008, 570,000 options were granted.

The fair value of options issued has been determined using the following assumptions:

Assumptions	
Risk-free rate	**3.16%**
Dividend yield	**1.77 %**
Volatility factor of the expected market price of Company's shares	**42.71%**
Average expected option life (years)	**5.0**
Weighted-average grant date fair value per share of options granted during the period	**$ 1.01**

During the second quarter ended June 30, 2008, the Company recorded stock-based compensation of $129,000 ($75,000 in 2007) relating to current and prior year option grants in general and administrative expenses of the statement of income. For the six month year-to-date period, the expense was $193,000 compared to $152,000 in 2007.

A semi-annual dividend on common shares for 2008 was paid July 24, 2008 at a rate of $0.025 per share for shareholders of record at June 30, 2008.

Notes to Consolidated Financial Statements (cont’d)

NOTE 4 FUTURE RETIREMENT BENEFITS

During the three month periods June 30, 2008 and 2007, the Company’s future retirement benefit expenses were $77,000 and $79,000 respectively. For the six-month year-to-date period, the expense was $151,000 compared to $156,000 in 2007.

NOTE 5 COMMITMENTS AND RELATED PARTY TRANSACTIONS

Related Party Transactions
Lease payments for corporate office space paid to a company controlled by the Chairman of the Company were $22,500 for the three-month period ended March 31, 2008 ($22,500 in 2006). The Company paid dues relating to a facility in South Carolina of approximately $6,300 for the three-month period ($5,100 in 2007) to a company in which the Chairman is an officer.

The Company provided a $0.1 million share purchase loan in 2006 to an employee due June 15, 2009 bearing interest at 5% annually with full recourse and is included in the financial statements under the caption “other assets”.

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

NOTE 6 SEGMENTED INFORMATION

	Sales excluding inter-company				
	Canada	US	Other	Total	Inter-company
Three-months ended June 2008					
Rubber Compounding Operations	19,208	29,017	548	48,773	1,018
AEP and Other	2,229	13,094	526	15,849	2,500
Railway Products	-	4,291	-	4,291	-
Total	21,437	46,402	1,074	68,913	3,518
Three-months ended June 2007					
Rubber Compounding Operations	21,083	22,849	588	44,520	372
AEP and Other	2,230	6,956	803	9,989	1,776
Railway Products	-	4,544	314	4,858	-
Total	23,313	34,349	1,705	59,367	2,148

	Rubber Compounding Operations	AEP & Other	Railway Products	Corporate and Inter-company Eliminations	Total
Three-months ended June 2008					
Sales	49,791	18,348	4,292	(3,518)	68,913
Cost of sales	45,702	14,586	3,744	(3,518)	60,514
	4,089	3,762	548	-	8,399
Operating expenses	1,855	1,564	456	661	4,536
Income before income taxes	2,234	2,198	92	(661)	3,863
Provision for income taxes					1,132
Net income					2,731
Purchase of capital assets	1,375	385	51	-	1,811
Amortization of capital assets and other assets	802	491	82	18	1,393

	Rubber Compounding Operations	AEP & Other	Railway Products	Corporate and Inter-company Eliminations	Total
Three-months ended June 2007					
Sales	44,892	11,765	4,858	(2,148)	59,367
Cost of sales	41,399	10,519	4,345	(2,148)	54,115
	3,493	1,246	513	-	5,252
Operating Expenses	1,613	1,982	383	455	4,433
Income before income taxes	1,880	(736)	130	(455)	819
Provision for income taxes					(49)
Net income					868
Purchase of capital assets	735	371	70	-	1,176
Amortization of capital assets and other assets	759	358	85	36	1,238

	Sales excluding inter-company				
	Canada	US	Other	Total	Inter-company
Six-months ended June 2008					
Rubber Compounding Operations	37,918	51,547	642	90,107	1,528
AEP and Other	4,863	23,217	1,520	29,600	4,152
Railway Products	-	8,184	-	8,184	-
Total	42,781	82,948	2,162	127,891	5,680
Six-months ended June 2007					
Rubber Compounding Operations	42,048	46,396	953	89,397	687
AEP and Other	4,396	14,374	1,505	20,275	3,272
Railway Products	-	8,671	681	9,352	-
Total	46,444	69,441	3,139	119,024	3,959

	Rubber Compounding Operations	AEP & Other	Railway Products	Corporate and Inter-company Eliminations	Total
Six-months ended June 2008					
Sales	91,635	33,751	8,185	(5,680)	127,891
Cost of sales	84,642	27,241	7,231	(5,680)	113,434
	6,993	6,510	954	-	14,457
Operating expenses	4,615	3,199	789	390	8,993
Income before income taxes	2,378	3,311	165	(390)	5,464
Provision for income taxes					1,761
Net income from continuing operations					3,703
Assets employed					
Canada	83,353	45,632	-	2,359	131,344
US	20,651	264	5,503	(23)	26,395
Total	104,004	45,896	5,503	2,336	157,739
Purchase of capital assets	1,459	841	82	-	2,382
Amortization of capital assets and other assets	1,552	912	161	40	2,665
Goodwill	7,944	7,182	1,494	-	16,620
Six-months ended June 2007					
Sales	90,084	23,547	9,352	(3,959)	119,024
Cost of sales	82,991	20,455	8,289	(3,959)	107,776
	7,093	3,092	1,063	-	11,248
Operating expenses	3,293	3,609	755	1,019	8,676
Income before income taxes	3,800	(517)	308	(1,019)	2,572
Provision for income taxes					554
Net income from continuing operations					2,018
Assets employed					
Canada	75,924	42,342	-	1,184	119,450
US	18,371	-	5,294	-	23,665
Total	94,295	42,342	5,294	1,184	143,115
Purchase of capital assets	930	435	127	-	1,492
Amortization of capital assets and other assets	1,457	696	169	70	2,392
Goodwill	7,944	7,182	1,494	-	16,620

NOTE 7 FINANCIAL INSTRUMENTS

Financial risk management

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

Market Risk

Commodity prices and supplies

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

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

Currency Risk

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

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

Interest Rate Risk

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

When the demand loan and term loan were negotiated, the primary objective was to obtain flexibility to manage its currency exposure. Currently 18.6% (2007: 19.6%) of borrowings are on a fixed rate basis and the Company has benefited from the reduction in the variable rates. The Company has no policy to manage the proportion of borrowings on a fixed rate basis but is assessing its ability to increase its proportion of fixed rate revolving line of credit and term loan. The Company has not entered into interest rate swap derivatives.

Notes to Consolidated Financial Statements (cont’d)

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

(thousands $ CDN)	2008	2007
Fixed rate instruments		
Financial assets	**150**	150
Financial liabilities	**(8,101)**	(8,689)
Variable rate instruments		
Financial assets	**3,980**	3,559
Financial liabilities	**(35,062)**	(35,306)
Total	**(39,033)**	(40,286)

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

A change of 100 basis points in interest rates during the quarter would have increased or decreased net income by $13,000 (2007: $15,000).

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

	Net income	
(thousands $ CDN)	100bp increase	100bp decrease
2008		
Variable rate instruments	(35)	130
Total	(35)	130
2007		
Variable rate instruments	(55)	74
Total	(55)	74

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

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

In monitoring credit risk, the Company considers industry, volume and aging trends, maturity, and other relevant factors. The Company performs ongoing credit evaluations of its customers’ financial condition and limits the amount of credit extended when deemed necessary. Purchase limits established for certain accounts represent the maximum open balance permitted without approval from the CEO. The Company maintains reserves for potential credit losses relating to specific exposures, and any such losses to date have been within management’s expectations. Five customers represented 49.0% and 54.3% of sales in 2007 and 2006 respectively. The loss of any such customers or the delay or cancellation of any orders under certain high-volume contracts could have a significant impact on the Company.

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

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

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

The Company manages liquidity by maintaining adequate cash balances, having appropriate lines of credit available and monitoring cash requirements to meet expected operational expenses including debt service and capital requirements. In addition, the Company maintains a facility permitting the Company to borrow up to $45 million. At June 30, 2008, the Company had drawn $27 million against this facility. When negotiating its term facility, the Company obtained a 15 year amortization period.

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

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

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

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

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

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

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

Fair value of financial instruments
The Company’s financial instruments consist of accounts receivable, restricted funds, demand loan, accounts payable and accrued liabilities, term loan and other debt. The fair values of accounts receivable, restricted funds, demand loan, accounts payable and accrued liabilities, as recorded in the consolidated balance sheets approximate their carrying amounts due to the short-term maturities of these instruments. The term loan reflects current market interest rates therefore the carrying amount approximate fair value. The fair value of the other debt is not readily determinable. Forward exchange contract to sell US $8 million has been recorded at its fair market value of $46,000 and is recorded in other assets.

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