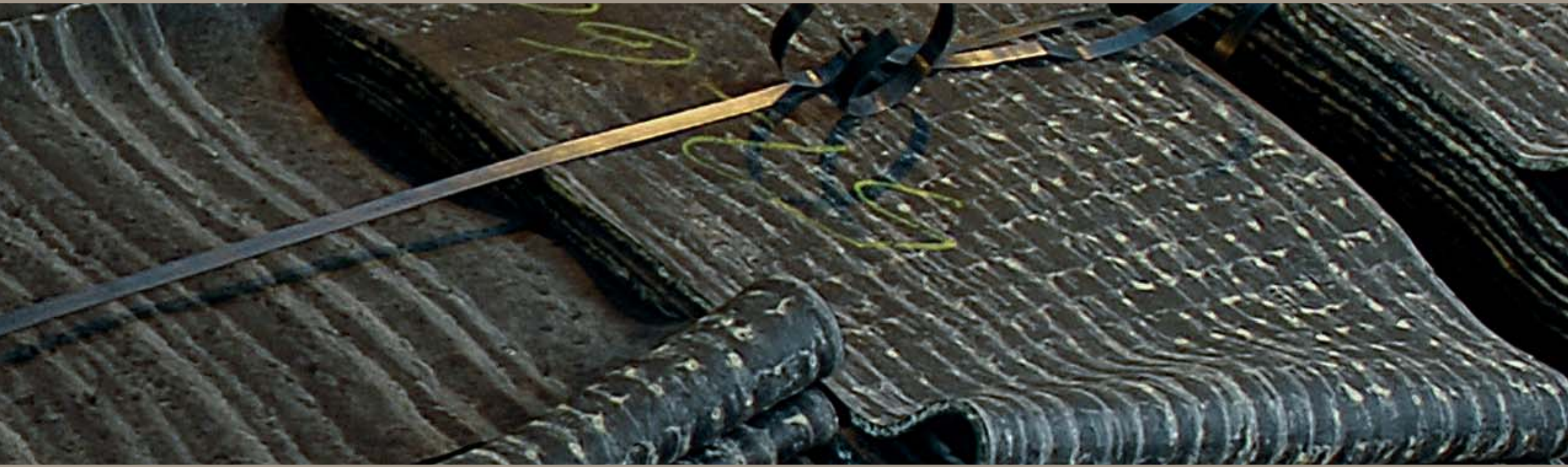
stability. ingenuity. capability.



Q2

AirBoss of America Corp. Second Quarter Interim Report 2007

stability. ingenuity. capability.

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

Business Segments		**Q2 2007**	**Markets**
Rubber Compounding	Manufactures custom compounds from natural and synthetic rubber gum, binding agents, and chemicals. Uses state of the art equipment, technical staff, and strong customer focus to achieve consistent on-time service customers can depend on.	$44 million	• 51% sales to US • Conveyor belts, tires and retreading automotive parts
Military and Industrial Products	Manufacturer of protective wear for military and first response applications. Manufactures extruded, calendered, cushion gum, and compression moulded rubber products.	$10 million	• 70% sales to US • CBRN footwear, gloves and masks for defence and firefighter
Railway Products	One of two companies to design, market, and service a complete line of railway fastening products to major North American rail lines to support heavy haulage requirements.	$5 million	• 93% sales to US • Plastic pads and insulators, and metal rail fastening clips

Contents

Second Quarter 2007 Results

For the Three and Six Months Ended June 30

(thousands $ CDN, except per share and share amounts)	Three months ended June 30 **2007**	2006	Six months ended June 30 **2007**	2006
Net sales	**$ 59,367**	$ 60,884	**$ 119,024**	$ 121,999
Gross margin	**5,639**	9,115	**12,008**	17,401
Earnings before interest, taxes & amortization (EBITDA) (Note 1)	**2,901**	5,746	**6,575**	10,462
Interest expense	**854**	796	**1,629**	1,626
Net income from continuing operations	**935**	3,402	**2,078**	5,230
Net loss from discontinued operations	**(67)**	(280)	**(60)**	(331)
Net income	**868**	3,122	**2,018**	4,899
Net income per share, from continuing operations				
- Basic	**$ 0.04**	$ 0.14	**$ 0.09**	$ 0.22
- Diluted	**$ 0.04**	$ 0.14	**$ 0.09**	$ 0.22
Net income per share				
- Basic	**$ 0.04**	$ 0.13	**$ 0.08**	$ 0.21
- Diluted	**$ 0.04**	$ 0.13	**$ 0.08**	$ 0.21
Dividends declared per share	**$ 0.025**	$ -	**$ 0.025**	$ -
Cash flow before changes in non-cash working capital from continuing operations	**$ 1,841**	$ 3,475	**$ 3,648**	$ 6,209
Common shares outstanding (millions):				
- Basic	**23.8**	23.7	**23.8**	23.3
- Diluted	**24.0**	24.2	**24.0**	23.8

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 June 30 **2007**	2006	Six months ended June 30 **2007**	2006
Income from continuing operations before income taxes	**$ 809**	$ 3,685	**$ 2,554**	$ 6,333
Interest expense	**854**	796	**1,629**	1,626
Amortization from continuing operations	**1,238**	1,265	**2,392**	2,503
EBITDA - continuing operations	**$ 2,901**	$ 5,746	**$ 6,575**	$ 10,462

To Our Shareholders

Sales for the six month period ended June 30, 2007 decreased by 2.4% to $119 million compared to the same period in 2006. Net income from continuing operations decreased $3.1 million to $2.1 million.

AirBoss Rubber Compounding

With the continuing slump in domestically produced tire and automotive sales in North America there exists excess capacity in the custom rubber mixing industry. While sales dollars declined by only 3% for the six month period, the number of pounds sold decreased by 12%. Most of this volume reduction was due to short-term weakness in demand in conveyor belting, solid tire and retreading industries. The probability that these market conditions will not improve as quickly as originally predicted exists and accordingly the Company is pursuing additional markets which consume large volumes of rubber compounds such as flooring, roofing and hose.

Raw materials continue to be problematic in their price volatility. Production issues in the domestic synthetic rubber markets required extensive purchasing on the international spot market. This negatively impacted margins in the last half of the second quarter. This may improve by the end of the third quarter as production of this key ingredient comes back online.

The Company is extremely pleased with the mixing operation in North Carolina which is now operating at greater than planned efficiencies and at exceptional quality levels.

Sales of semi-processed rubber products produced in Québec such as uncured rubber track pre-forms for industrial applications also declined in the period. This is attributed to a temporary decline in demand for industrial rubber tracks. Improvement is forecasted by our customers for these products moving forward.

AirBoss-Defense

Sales improved by 32% 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 remainder of the year. New orders were received in June for over $8 million of CBRN products with more expected. Combined with previous orders we should see a substantial increase in sales over the next 6 months compared to the first half of the year.

This Division is outperforming expectations with respect to sales and this should help offset some margin erosion due to the strengthened Canadian dollar. Strategic initiatives which are underway include the pursuit of distribution alliances in 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

Rubber compound sales volumes in existing Company markets should improve over the next six months but remain vulnerable to changes in both commodity prices and changes in economic conditions in the US. We are actively developing compounds for additional markets and are in the process of pursuing strategic alliances with major rubber users in four different industries. We do not see any decline in industry capacity in the short term and this will continue to foster an extremely competitive market place.

The Defense Division has performed well in the first half of the year and is expected to do even better over the next six months. We have improved all of our core products over the last two years despite the fact that they were already recognized as world leaders in performance. As a result we should see even greater growth in 2008. We have been actively pursuing acquisitions, joint ventures and alliances. While we haven't found the right fit yet in the defense sector we are hopeful of being able to increase US distribution of our first response products in the near future.

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 six month periods ended June 30, 2007 have been prepared as of August 9, 2007 and should be read in conjunction with the Consolidated Financial Statements and Notes prepared in accordance with Canadian generally accepted accounting principles. All tabular dollar amounts are shown in thousands of Canadian dollars unless otherwise specified. Additional information regarding the Company, including its Annual Information Form, can be found at SEDAR at www.sedar.com and at the Company's website at www.airbossofamerica.com

Forward-Looking Statements – Certain statements included herein, including those that express management's expectations or estimates of future developments or AirBoss' future performance, constitute "forward-looking statements" within the meaning of applicable securities laws. Words such as "may", "could" "expects", "anticipates", "forecasts", "plans", "intends" or similar expressions are intended to identify forward-looking statements.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management at the time the statements are made, are inherently subject to significant business, economic and competitive uncertainties and contingencies. AirBoss cautions that such forward-looking statements involve known and unknown risks, uncertainties and other risks that may cause AirBoss' actual financial results, performance, or achievements to be materially different from its estimated future results, performance or achievements expressed or implied by those forward-looking statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements, including without limitation: changes in accounting policies and methods including uncertainties associated with critical accounting assumptions and estimates; AirBoss' ability to maintain existing customers or develop new customers in light of increased competition; cyclical trends in the tire and automotive, construction, mining, retail and rail transportation industries; sufficient availability of raw materials at economical costs; weather conditions affecting raw materials, production and sales; potential product liability and warranty claims; its dependence on key customers; equipment malfunction; changes in the value of the Canadian dollar relative to the US dollar; ability to obtain financing on acceptable terms; environmental damage caused by it and non-compliance with environmental laws and regulations; changes in tax laws and potential litigation.

This list is not exhaustive of the factors that may affect any of AirBoss' forward-looking statements. Investors are cautioned not to put undue reliance on forward-looking statements. All subsequent written and oral forward-looking statements attributable to AirBoss or persons acting on its behalf are expressly qualified in their entirety by this notice. Whether as a result of new information, future events or otherwise, AirBoss disclaims any intent or obligation to update publicly these forward-looking statements. Risks and uncertainties about AirBoss' business are more fully discussed under the heading "Risk Factors" section of the Company's annual report on pages 21 to 23.

Highlights

Selected Financial Information

	Three months ended June 30		Six months ended June 30	
(thousands, except per share amount)	**2007**	2006	**2007**	2006
Financial results:				
Net sales	**$ 59,367**	$ 60,884	**$ 119,024**	$ 121,999
Net income from continuing operations	**935**	3,402	**2,078**	5,230
Net income	**868**	3,122	**2,018**	4,899
Net income per share - continuing operations				
- Basic	**0.04**	0.14	**0.09**	0.22
- Diluted	**0.04**	0.14	**0.09**	0.22
Net income per share				
- Basic	**0.04**	0.13	**0.08**	0.21
- Diluted	**0.04**	0.13	**0.08**	0.21
Operating cash flow used in continuing operations	**1,841**	3,475	**3,648**	6,209
Capital expenditures	**1,176**	1,718	**1,492**	3,191
Dividend declared per share	**0.025**	-	**0.025**	-

(thousands)	**June 30, 2007**	December 31, 2006
Financial Position:		
Total assets	**$ 143,352**	$ 139,216
Demand loan	**23,132**	20,807
Term loan and other debt	**18,755**	20,600
Shareholders' equity	**65,370**	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.

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 decreased 2.5% for the quarter and 2.4% for the six-month year-to-date period.

Three months ended June 30			Engineered Products		
($ thousands)		Rubber Compounding	AEP and Other	Railway Products	Total
Net sales	**2007**	**44,520**	**9,989**	**4,858**	**59,367**
	2006	45,313	9,310	6,261	60,884
Increase (decrease) $		(793)	679	(1,403)	(1,517)
Increase (decrease) %		(1.7%)	7.3%	(22.4%)	(2.5%)

Six months ended June 30			Engineered Products		
($ thousands)		Rubber Compounding	AEP and Other	Railway Products	Total
Net sales	**2007**	**89,397**	**20,275**	**9,352**	**119,024**
	2006	92,564	18,387	11,048	121,999
Increase (decrease) $		(3,167)	1,888	(1,696)	(2,975)
Increase (decrease) %		(3.4%)	10.3%	(15.4%)	(2.4%)

Rubber Compounding

Unit sales volumes decreased by 7% and 12% for the quarter and year-to-date compared to last year which were offset by higher material costs passed on to customers resulting in a net sales dollar decrease of 1.7% and 3.4%. Second quarter volumes were 7% higher than the first quarter evidencing a partial improvement in sales volume as forecasted in the first quarter, 2007's outlook.

The major sectors showing year-over-year volume declines were conveyor belting with a decline of 12%, solid tire at 16%, automotive at 17% and retread tires at 10%. These declines were due to weakness in demand in these sectors and not due to major customer loss. Tolling volumes also declined due to the closure of an OE tire plant customer in July 2006. Volume increases were experienced in the mining and defense sectors and these sectors will continue to increase for the remainder of the year.

The Company expects some improvement in the last half of the year in the sectors that have shown decline. In addition we expect to add important new customers in these sectors as well as in sectors not previously serviced such as roofing, flooring and hose.

Due to the continued weakness in major North American rubber sectors there is excess capacity and the industry will continue to be very competitive for the remainder of the year.

AirBoss Engineered Products

Sales increased by $0.7 million in the second quarter and $1.9 million or 10.3% compared to the same six-month period in 2006.

AirBoss-Defense sales increased by $1.1 million or 24.8% for the quarter and $2.8 million or 32.3% year-to-date over the same period in 2006 primarily due to increased sales in CBRN footwear as well as sales of rubber pre-forms to the US military for repair of tank track pads. This trend is expected to accelerate in the last 6 months of 2007 as demand for the products such as CBRN hand wear and footwear, Extreme Cold Weather boots and gas masks is high. In the last week of June 2007 alone, orders were received for over $8 million of these products. That, combined with expected additional shipments, should result in second half sales exceeding the first half by a substantial amount.

The industrial rubber product sales decreased by $0.4 million for the quarter or $0.9 million year-to-date due to significant declines in sales to the rubber track market offset by increases in sales to new customers in the hose market.

Railway Products

Sales in the quarter were $1.4 million lower than in 2006. Sales of insulators and assemblies were down US $2.3 million and US $0.9 million, whereas sales of tie plates increased by US $1.4 million. Sales of insulators should increase in the second half of the year and we expect performance in this division to return to 2006 levels.

GROSS MARGIN

Gross margin for the three-month period ended June 30, 2007 was $5.6 million, a decrease of $3.5 million compared to 2006 primarily attributable to higher raw material costs and volume declines in industrial rubber and rail products.

Three months ended June 30

($ thousands)		Rubber Compounding	Engineered Products AEP	Engineered Products Railway Products	Total
Gross Margin	**2007**	**3,880**	**1,246**	**513**	**5,639**
	2006	5,427	2,549	1,139	9,115
Increase (decrease) $		(1,547)	(1,303)	(626)	(3,476)
% net of sales	**2007**	**8.7**	**12.5**	**10.6**	**9.5**
	2006	12.0	27.4	18.2	15.0

Six months ended June 30

($ thousands)		Rubber Compounding	Engineered Products AEP	Engineered Products Railway Products	Total
Gross Margin	**2007**	**7,853**	**3,092**	**1,063**	**12,008**
	2006	10,758	4,697	1,946	17,401
Increase (decrease) $		(2,905)	(1,605)	(883)	(5,393)
% net of sales	**2007**	**8.8**	**15.3**	**11.4**	**10.1**
	2006	11.6	25.5	17.6	14.3

Rubber Compounding

The decrease in gross margin in the second quarter of 2007 compared with the second quarter of 2006 was mainly attributable to a $0.03 per pound increase in material costs that was not recovered, representing $1.1 million. Most of this margin compression occurred as a result of a sharp spike in synthetic rubber prices in the latter part of the second quarter. This occurred due to domestic shortages in certain ingredients used in the manufacture of a key grade of SBR rubber. To ensure adequate supply of materials the Company was required to buy on the foreign spot market at higher prices.

Commodity prices for key raw materials such as natural rubber and synthetic rubber continue to fluctuate in the high end of their historical ranges. The balance of the shortfall was attributed to lower volumes and higher conversion costs relating to unabsorbed fixed overhead.

Margins were also affected negatively by the decline in volumes. This was partially offset by the improvements in operating efficiency at our North Carolina mixing plant. This plant was operating as a startup facility in 2006 and is now producing commercial volumes.

AirBoss Engineered Products

Gross margin at AEP decreased by $1.3 million during the second quarter 2007 compared with second quarter of 2006. The military gross margin decreased by $0.7 million due to both the strengthening of the Canadian dollar and a product mix which included lower margin track pad pre-forms. The Industrial Division gross margin decreased by $0.6 million due to the lower volumes of rubber track products.

Railway Products

Gross Margin decreased by $0.6 million for the quarter from an unfavourable product mix and higher prices from an Australian sub-contractor of rail clips.

EXPENSES

Operating expenses, including other income and interest, for the second quarter ended June 30, 2007 were $0.6 million lower than in 2006 primarily in the Rubber Compounding segment.

Three months ended June 30

($ thousands)		Rubber Compounding Operations	Engineered Products AEP and Other	Engineered Products Railway Products	Unallocated Corporate Costs	Total
Operating expenses	**2007**	**2,000**	**1,992**	**383**	**455**	**4,830**
	2006	2,519	1,752	509	650	5,430
Increase (decrease) $		(519)	240	(126)	(195)	(600)
% net of sales	**2007**	**4.5**	**19.9**	**7.9**	**N/A**	**8.1**
	2006	5.6	18.8	8.1	N/A	8.9

Six months ended June 30

($ thousands)		Rubber Compounding Operations	Engineered Products AEP and Other	Engineered Products Railway Products	Unallocated Corporate Costs	Total
Operating expenses	**2007**	**4,053**	**3,627**	**755**	**1,019**	**9,454**
	2006	5,677	3,501	900	990	11,068
Increase (decrease) $		(1,624)	126	(145)	29	(1,614)
% net of sales	**2007**	**4.5**	**17.9**	**8.1**	**N/A**	**7.9**
	2006	6.1	19.0	8.1	N/A	9.1

Rubber Compounding

Operating expenses decreased by $0.5 million in the second quarter 2007 compared with 2006 relating to higher foreign exchange gains from its US operations.

The year-to-date expenses also include a net reduction in general and administrative expenses of $0.4 million due to personnel cost reductions, a decrease in freight costs of $0.2 million due to volume changes and shorter distances as a result of shipping from North Carolina, 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 $0.2 million for the second quarter ended June 30, 2007 from foreign exchange losses related to the military division.

Railway Products

The expenses were comparable year-over-year.

Unallocated Corporate Costs

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

INCOME TAX EXPENSE

The Company recorded an income tax recovery from continuing operations of $0.1 million or an effective income tax rate for the quarter of 15.6% compared to $0.3 million or 7.7% effective tax rate in 2006.

The primary factors contributing to a lower effective tax rate from the marginal tax rate in the second quarter of 2007 include:

- Differences on filing related to R&D tax credits of $0.2 million
- Permanent difference on translating US operations of $0.3 million

On a year-to-date basis, the income tax expense for the six-month period ended June 30, 2007 was $0.5 million or 18.6% effective tax rate compared to 1.1 million or 17.4% in 2006.

Net income (loss) from discontinued operations

Net sales and net loss from discontinued operations for the quarter were $0.0 million and $0.1 million in 2007 compared to $0.2 million and $0.3 million in 2006.

NET INCOME AND EARNINGS PER SHARE

Net income from continuing operations in 2007 amounted to $0.9 million and $3.4 million in 2006. The basic and fully diluted earnings per share in the quarter were $0.04 (2006-$0.14) and $0.04 (2006-$0.13) based on basic and fully diluted shares outstanding 23,787,841 (2006-23,674,077) and 24,034,183 (2006-24,167,686) respectively.

QUARTERLY INFORMATION

($ thousands except per share amounts)

	Net Sales	Net Income (Loss)		Net Income (Loss) Per Share Continuing Operations		Net Income (Loss) Per Share	
Quarter Ended	Continuing Operations	Continuing Operations	Total	Basic	Diluted	Basic	Diluted
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	1,580	1,599	0.07	0.07	0.07	0.07
June 30, 2006	60,884	3,402	3,122	0.14	0.14	0.13	0.13
March 31, 2006	61,115	1,828	1,777	0.08	0.08	0.08	0.08
December 31, 2005	51,258	182	228	0.01	0.01	0.01	0.01
September 30, 2005	54,206	(1,644)	(1,744)	(0.07)	(0.07)	(0.08)	(0.07)

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

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 $1.8 million for the three month period ended June 30, 2007 compared to $3.5 million for the same period in 2006. The change was due to a decrease in net income by $2.5 million compared to 2006, changes to future income taxes, and higher foreign exchange gains on the re-measurement of net US dollar monetary liabilities.

Non-cash working capital

The investment in non-cash working capital relating to continuing operations was $39.2 million at June 30, 2007 compared to $32.9 million in the second quarter of 2006.

The non-cash working capital increased by $5.1 million in the second quarter of 2007 as follows:

- Accounts receivable decreased by $5.5 million in accordance with the timing of the terms with a significant customer.
- Accounts payable increased $2.1 million due to the timing of payments.
- Income taxes payable decreased in the second quarter of 2007 as a result of $2.4 million of final payments on filing the 2006 Canadian corporate tax returns and an increase in 2007 installments accordingly.

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 June 30, 2007 were $1.2 million primarily for equipment in Kitchener ($0.6 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 $4 million and $5 million on its capital projects.

Other assets

During the second quarter of 2007, less than $0.1 million was invested in rail clip product development costs and $0.1 million was deposited in escrow.

Financing

Cash used by financing activities totalled $5.7 million for the quarter ended June 30, 2007 compared to $5.4 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 six-month period ended June 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 $1.8 million in Canadian provincial and federal tax installments for the balance of fiscal 2007 and expects to recover $0.9 million relating to prior year and $0.6 million related to a subsidiary's current year installments in excess of current year taxes owing.

Forward exchange contracts

The Company has a $5 million forward contract as a partial 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 quarter that was paid July 25, 2007.

Outstanding shares

As at August 9, 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 second quarter was $22,500 ($22,500 in 2006).

During the second quarter, the Company paid monthly dues relating to a facility in South Carolina of approximately $5,100 ($4,800 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 $12,000 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.

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 military and First Response protective wear in both Europe and North America should continue to increase. Sales for the second half of 2007 are expected to increase by approximately 40% over the first half. Most of this expectation is covered by existing orders already received.

Key markets for our rubber compounds, such as conveyor belting and solid tires, improved only marginally in the second quarter and again failed to meet expectations. Accordingly the Company is committing product development resources to enter markets it has not traditionally served in the past such as hose, roofing and flooring.

Demand for rubber compounds in certain other traditional markets such as automotive and on-road pneumatic tires is expected to continue to remain weak in 2007. These account for a smaller percentage of our total business 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 elimination of the need to purchase a significant amount of materials on the spot market 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

Consolidated Balance Sheets

(thousands $ CDN)	June 30, 2007	December 31, 2006
	(unaudited)	
ASSETS		
Current assets:		
Accounts receivable	**$ 29,895**	$ 25,486
Inventories	**30,492**	33,099
Prepaid expenses	**1,086**	642
Income taxes receivable	**1,600**	-
Current assets of discontinued operations	**237**	351
Total current assets	**63,310**	59,578
Capital assets	**54,874**	55,620
Assets held for sale	**359**	359
Goodwill	**16,620**	16,620
Future income tax assets	**3,668**	2,748
Other assets	**4,521**	4,291
Total assets	**$ 143,352**	$ 139,216
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand loan	**$ 23,132**	$ 20,807
Accounts payable and accrued liabilities	**23,251**	20,482
Income taxes payable	**-**	2,188
Dividend payable	**595**	-
Current liabilities of discontinued operations	**198**	143
Current portion of term loan and other debt	**1,399**	1,678
Total current liabilities	**48,575**	45,298
Term loan and other debt	**17,356**	18,922
Future income tax liabilities	**10,243**	9,269
Accrued post retirement benefit liability	**1,808**	1,652
Total liabilities	**77,982**	75,141
Commitments (note 6)		
Shareholders' equity:		
Share capital	**40,537**	40,395
Contributed surplus	**1,341**	1,240
Accumulated other comprehensive income	**(529)**	(158)
Retained earnings	**24,021**	22,598
Total shareholders' equity	**65,370**	64,075
Total liabilities and shareholders' equity	**$ 143,352**	$ 139,216

See accompanying notes to consolidated financial statements.

On behalf of the Board

Robert L. Hagerman
Director

Robert L. McLeish
Director

Consolidated Statements of Income and Retained Earnings

(unaudited) (thousands $ CDN, except per share amounts)	Three months ended June 30 **2007**	2006	Six months ended June 30 **2007**	2006
NET SALES	**$ 59,367**	$ 60,884	**$ 119,024**	$ 121,999
Cost of sales	**53,728**	51,769	**107,016**	104,598
Gross margin	**5,639**	9,115	**12,008**	17,401
OPERATING EXPENSES				
General and administrative	**2,635**	2,670	**4,573**	5,239
Selling, marketing and distribution	**1,698**	1,798	**3,441**	3,784
Product research	**240**	414	**441**	729
Total operating expenses	**4,573**	4,882	**8,455**	9,752
Income before undernoted items	**1,066**	4,233	**3,553**	7,649
Other income	**(597)**	(248)	**(630)**	(310)
Income from continuing operations, before interest expense	**1,663**	4,481	**4,183**	7,959
Interest expense	**854**	796	**1,629**	1,626
Income from continuing operations, before income taxes	**809**	3,685	**2,554**	6,333
Provision for income taxes	**(126)**	283	**476**	1,103
Net income from continuing operations	**935**	3,402	**2,078**	5,230
Loss from discontinued operations, net of tax (Note 3)	**(67)**	(280)	**(60)**	(331)
Net income	**868**	3,122	**2,018**	4,899
Dividends	**(595)**	-	**(595)**	-
Retained earnings, beginning of period	**23,748**	17,885	**22,598**	16,108
Retained earnings, end of period	**$ 24,021**	$ 21,007	**$ 24,021**	$ 21,007
Net income per share				
From continuing operations				
- Basic	**$ 0.04**	$ 0.14	**$ 0.09**	$ 0.22
- Diluted	**$ 0.04**	$ 0.14	**$ 0.09**	$ 0.22
From net income				
- Basic	**$ 0.04**	$ 0.13	**$ 0.08**	$ 0.21
- Diluted	**$ 0.04**	$ 0.13	**$ 0.08**	$ 0.21

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(unaudited) (thousands $ CDN)	Three months ended June 30 **2007**	2006	Six months ended June 30 **2007**	2006
Net Income	**$ 868**	$ 3,122	**$ 2,018**	$ 4,899
Other comprehensive loss - net of income tax:				
Change in foreign currency translation losses on self-sustaining foreign operations	**(329)**	(141)	**(371)**	(129)
Comprehensive income	**$ 539**	$ 2,981	**$ 1,647**	$ 4,770

Consolidated Statements of Cash Flows

(unaudited) (thousands $ CDN)	Three months ended June 30 **2007**	2006	Six months ended June 30 **2007**	2006
CASH PROVIDED BY (USED IN):				
Operating Activities:				
Net income from continuing operations	**$ 935**	$ 3,402	**$ 2,078**	$ 5,230
Items not affecting cash:				
Amortization	**1,238**	1,265	**2,392**	2,503
Gain on disposal of capital assets	**(42)**	-	**(42)**	-
Future income taxes	**308**	(1,105)	**54**	(1,555)
Foreign exchange gain	**(752)**	(220)	**(1,142)**	(21)
Options expense	**75**	71	**152**	(75)
Post-retirement benefits expense	**79**	62	**156**	127
	1,841	3,475	**3,648**	6,209
Changes in non-cash operating working capital balances	**5,135**	3,535	**(3,505)**	(9,453)
Net cash provided by (used in) continuing operations	**6,976**	7,010	**143**	(3,244)
Net cash provided by (used in) discontinued operations	**(14)**	384	**109**	881
Cash provided by (used in) operating activities	**6,962**	7,394	**252**	(2,363)
Investing Activities:				
Purchase of capital assets	**(1,176)**	(1,718)	**(1,492)**	(3,191)
Proceeds of disposal of capital assets	**45**	-	**45**	-
Increase in other assets	**(135)**	(289)	**(325)**	(798)
Cash used in investing activities	**(1,266)**	(2,007)	**(1,772)**	(3,989)
Financing Activities:				
Net increase (decrease) in demand loan	**(5,232)**	(6,306)	**2,325**	5,316
Increase in term loan	**-**	1,365	**-**	1,382
Repayment of term loan	**(336)**	(750)	**(683)**	(1,500)
Settlement of other debt	**(219)**	(6)	**(213)**	(6)
Issuance of share capital	**91**	310	**91**	1,160
Cash provided by (used in) financing activities	**(5,696)**	(5,387)	**1,520**	6,352
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	**$ 809**	$ 754	**$ 1,560**	$ 1,694
Cash income taxes remitted	**1,094**	1,838	**4,082**	2,150

See accompanying notes to consolidated financial statements.

Three months ended June 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

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- 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.

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- 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.

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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:

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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.
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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 June 30		Six months ended June 30	
	2007	2006	**2007**	2006
Net sales	**$ 4**	$ 166	**$ 14**	$ 360
Income (loss) before tax	**9**	(437)	**17**	(521)
Net income (loss)	**(67)**	(280)	**(60)**	(331)
Amortization	**-**	41	**-**	44

NOTE 4 STOCK OPTIONS

During the second quarter ended June 30, 2007, the Company recorded stock-based compensation of $75,000 ($71,000 expense in 2006) relating to 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 $152,000 compared to a net recovery of $75,000 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 June 30, 2007 and 2006, the Company's future retirement benefit expenses were $79,000 and $62,000 respectively. For the six-month year-to-date period, the expense was $156,000 compared to $127,000 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 June 30, 2007 ($22,500 in 2006). The Company paid monthly dues relating to a facility in South Carolina of approximately $5,100 for the three-month period ($4,800 in 2006) and $10,500 for the six-month year-to-date period ($9,800 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 $12,000 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 hedge against U.S. dollar denominated inventory.

NOTE 7 SEGMENTED INFORMATION

	Sales excluding inter-company				
	Canada	USA	Other	Total	Inter-company
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
Three months ended June 2006					
Rubber Compounding Operations	21,852	23,363	98	45,313	272
AEP and Other	2,106	7,007	197	9,310	2,537
Railway Products	-	5,839	422	6,261	-
Total	23,958	36,209	717	60,884	2,809

	Rubber Compounding Operations	AEP and 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	41,012	10,519	4,345	(2,148)	53,728
	3,880	1,246	513	-	5,639
Operating expenses	2,000	1,992	383	455	4,830
Income before income taxes	1,880	(746)	130	(455)	809
Provision for income taxes					126
Net income from continuing operations					935
Purchase of capital assets	735	371	70	-	1,176
Amortization of capital assets and other assets	759	358	85	36	1,238
Goodwill	7,944	7,182	1,494	-	16,620
Three months ended June 2006					
Sales	45,585	11,847	6,261	(2,809)	60,884
Cost of sales	40,158	9,298	5,122	(2,809)	51,769
	5,427	2,549	1,139	-	9,115
Operating expenses	2,519	1,752	509	650	5,430
Income before income taxes	2,908	797	630	(650)	3,685
Provision for income taxes					(283)
Net income from continuing operations					3,402
Purchase of capital assets	996	583	134	5	1,718
Amortization of capital assets and other assets	726	378	80	81	1,265
Goodwill	7,944	7,182	1,494	-	16,620

	Sales excluding inter-company Canada	USA	Other	Total	Inter-company
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
Six months ended June 2006					
Rubber Compounding Operations	42,650	49,437	477	92,564	975
AEP and Other	4,621	12,958	808	18,387	7,018
Railway Products	-	10,338	710	11,048	-
Total	47,271	72,733	1,995	121,999	7,993

	Rubber Compounding Operations	AEP and Other	Railway Products	Corporate and Inter-company Eliminations	Total
Six months ended June 2007					
Sales	90,084	23,547	9,352	(3,959)	119,024
Cost of sales	82,231	20,455	8,289	(3,959)	107,016
	7,853	3,092	1,063	-	12,008
Operating expenses	4,053	3,627	755	1,019	9,454
Income before income taxes	3,800	(535)	308	(1,019)	2,554
Provision for income taxes					(476)
Net income from continuing operations					2,078
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
Six months ended June 2006					
Sales	93,539	25,405	11,048	(7,993)	121,999
Cost of sales	82,781	20,708	9,102	(7,993)	104,598
	10,758	4,697	1,946	-	17,401
Operating expenses	5,677	3,501	900	990	11,068
Income before income taxes	5,081	1,196	1,046	(990)	6,333
Provision for income taxes					(1,103)
Net income from continuing operations					5,230
Assets employed					
Canada	72,863	42,844	-	1,296	117,003
US	14,119	-	7,043	-	21,162
Total	86,982	42,844	7,043	1,296	138,165
Purchase of capital assets	2,136	842	207	6	3,191
Amortization of capital assets and other assets	1,363	781	150	209	2,503
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 June 30, 2007, Foreign exchange contracts not eligible for hedge accounting are included in other assets at a fair value of $0.0 million.

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Vice-President Finance and CFO:
Stephen W. Richards

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Vice-President Sales and Marketing:
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Vice-President of Supply Chain Management:
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Divisional President, AirBoss-Defense:
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Sales Manager – Industrial Products:
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United States

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