From chemistry, to compound, to application

Q3

AirBoss of America Corp. Third Quarter Interim Report 2008

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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 both natural and synthetic base polymers. Uses state-of-the-art equipment, product development labs, and strong customer focus to achieve consistent on-time delivery.

Military and Industrial Products

Manufacturer of protective wear for military and first response applications. Manufactures extruded and calendered rubber products.

Railway Products

Designs, markets and services a complete line of railway fastening products to major North American rail lines to support heavy haulage requirements.

Sales for the three-month period ended September 30, 2008 increased by 20% while earnings increased by 76% for the same period. For the nine-month period, sales increased by 11% and earnings increased by 81% compared to the previous year.

AirBoss-Defense and Industrial Products

AirBoss–Defense continues to perform exceptionally well. The sales of CBRN products, representing approximately 70% of total product sales, continue to be strong. Production of gas masks hit planned levels in the quarter, resulting in an improved product mix and injection molding equipment utilization. This increase in manufacturing efficiency had a positive impact on profitability in the quarter. The division expects to finish the year ahead of plan and early indications are that 2009 will show further sales and profitability increases, particularly from volume increases in Europe. The drop in the Canadian dollar early in the fourth quarter should help profitability on multi-year contracts as exchange rates return to levels at which the contracts were originally based.

The key to the success of this business is continuous quality improvement and product innovation. AirBoss has a long history in working jointly with governments to push the envelope of CBRN protective wear capability. During the period, we continued to work on projects to maximize the protective capabilities of the various rubber compounds used in our products. AirBoss also plans to begin development work on improved filtering for gas masks.

The Industrial Products group continued its improved performance as both sales and profits have increased over the prior year.

AirBoss Rubber Compounding

The Rubber Compounding division performed well in difficult industry and market conditions. The North American rubber industry was negatively impacted by slumping demand in the automotive and tire sectors. AirBoss revenues increased by 24% compared to the same three-month period in 2007 although this was almost entirely due to price increases necessitated by rising raw material costs. Volumes in pounds remained flat year-over-year with decreases in belting and automotive being offset by increases in defense and new customers in other sectors.

Despite shrinking industry demand raw material price increases continued to impact margins during the quarter. Certain key materials, such as synthetic rubber, increased in price by as much as 25 to 30 per cent in the quarter. Currency and supply shortage issues further affected North American pricing of materials. AirBoss was able to continue to supply customers throughout the period due to maintaining a world wide supply base and by increasing inventory levels. Margin declines in the quarter were felt the greatest in September in the belting sector. These decreases were partially offset by a favourable customer mix resulting in a gross margin decline of 1% overall for the quarter.

These unfavourable market conditions will prevail until the latter part of the fourth quarter when we will begin to see a drop in prices. Natural rubber is now trading within normal ranges and this will affect deliveries in December and January as our average cost of inventory on hand decreases. Carbon black prices should begin to decline in December. While we are starting to see some easing in 2009 synthetic rubber prices the decreases are not yet to the degree justified by the recent declines in oil and other indicators.

To Our Shareholders (cont’d)

Outlook

The improvement in the year-over-year performance of the Company is attributable to the Defense and Industrial Products division and this is expected to continue for the remainder of the year. While the Rubber Compounding Division is essentially flat compared to previous years, it has outperformed the industry over the last quarter in some very difficult times.

The impact of raw material prices continues to be the greatest concern. It is a challenge to manage increases which, for certain key material are in excess of 25% a quarter. Not only does this impact margins negatively, but it affects our customers and demand for their products. The raw material increases stretch working capital requirements, negatively impact customers and potentially increase credit risk.

Fortunately the Company has strong, supportive financial partners and has not been constrained in any manner during the turbulent credit period subsequent to the end of the quarter. Demand from new customers has helped to offset business based declines from existing ones. Part of this increased activity is in recognition of our stable base. As planned, there was a substantial reduction in working capital requirements subsequent to the quarter end.

AirBoss sells mainly to the industry leaders in the sectors we service. While this does not make us immune to credit risk we expect that it will serve us well in the immediate future.

Logic would dictate that commodity price relief, which has already been felt elsewhere, will eventually impact the rubber industry in some meaningful fashion. The first signs of this are with natural rubber and carbon black. Prices for synthetic rubber, chemicals and process oils should follow suit in December and the beginning of 2009.

The decline in the Canadian dollar in October should further help to improve fourth quarter results in the Defense Products division and have a marginally positive impact on Rubber Compounding.

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" as the "Company") for the three and nine month periods ended September 30, 2008 has been prepared as of November 11, 2008 and should be read in conjunction with the Unaudited Consolidated Financial Statements and Notes prepared in accordance with Canadian generally accepted accounting principles. The quarterly consolidated financial statements and any amounts shown in this MD&A were not reviewed or audited by our external auditors. 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 3rd Quarter increased by 20.1%
- EBITDA increased by 48.4%, largely due to higher volume at AirBoss-Defense

	Three months ended September 30		Nine months ended September 30	
($ thousands, except per share amount)	**2008**	2007	**2008**	2007
Financial results:				
Net sales	**$ 68,096**	$ 56,703	**$ 195,987**	$ 175,728
Net income	**2,027**	1,151	**5,730**	3,169
Net income per share - Basic and Diluted	**0.09**	0.05	**0.24**	0.13
EBITDA (non-GAAP financial measure)	**5,300**	3,571	**14,762**	10,139
Operating cash flow provided by (used in) operations	**(10,937)**	1,015	**(12,673)**	1,267
Capital expenditures	**552**	1,163	**2,934**	2,655
Dividends declared per share	**-**	-	**0.025**	0.025

($ thousands)	**September 30, 2008**	December 31, 2007
Financial Position:		
Total assets	**$ 168,173**	$ 138,536
Demand loan	**38,927**	20,893
Term loan and other debt	**16,830**	17,444
Shareholders' equity	**72,312**	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 September 30		Nine months ended September 30	
($ thousands)	**2008**	2007	**2008**	2007
EBITDA:				
Income before income taxes	**$ 3,351**	$ 1,416	**$ 8,815**	$ 3,988
Net financing interest expense	**651**	949	**1,973**	2,553
Depreciation and amortization	**1,298**	1,206	**3,974**	3,598
EBITDA	**$ 5,300**	$ 3,571	**$ 14,762**	$ 10,139

RESULTS OF OPERATIONS

SALES FROM CONTINUING OPERATIONS

Sales revenues from continuing operations increased 20.1% for the quarter and 11.5% for the nine-month year-to-date period.

Three months ended September 30

			Engineered Products		
($ thousands)		Rubber Compounding	AEP & Other	Railway Products	Total
Net sales	**2008**	**49,254**	**15,926**	**2,916**	**68,096**
	2007	39,848	11,095	5,760	56,703
Increase (decrease) $		9,406	4,831	(2,844)	11,393
Increase (decrease) %		23.6	43.5	(49.4)	20.1

Nine months ended September 30

			Engineered Products		
($ thousands)		Rubber Compounding	AEP & Other	Railway Products	Total
Net sales	**2008**	**139,361**	**45,525**	**11,101**	**195,987**
	2007	129,244	31,371	15,113	175,728
Increase (decrease) $		10,117	14,154	(4,012)	20,259
Increase (decrease) %		7.8	45.1	(26.5)	11.5

Rubber Compounding

Revenues increased by 24% compared to the same quarter of last year and by 8% compared to 2007 for the nine-month period ended September 30, 2008. These increases are attributable to price increases which result from passing along increases in the costs of raw materials. Year-to-date volumes have remained relatively flat, decreasing by less than 1%.

Volume decreases in the belting and automotive sectors were offset by increases in defense and other sectors. Continued weakness in key US markets along with the impact of increased material costs will likely mean this trend will continue throughout the fourth quarter.

AirBoss Engineered Products

Sales increased by $4.8 million in the third quarter and $14.2 million or 45.1% compared to the same nine-month period in 2007.

AirBoss-Defense sales increased by $2.9 million or 46% for the quarter and by $11.4 million or 64% year-to-date over the same period in 2007. This strong performance was 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 for the quarter increased by $1.9 million from new customers and price increases attributable to raw material cost increases.

Railway Products

Sales decreased by $4 million for the nine-month period ended September 30, 2008 as a result of delays in the start of the next phase of a South American project and a slight decrease in new track construction. A major test installation of the Company's new tie captive system is slated for the fourth quarter. It is anticipated that this will boost revenues in 2009.

GROSS MARGIN

Gross margin for the three-month period ended September 30, 2008 was $7.8 million, an increase of $2.2 million compared to 2007 primarily due to the AirBoss–Defense sales.

Three months ended September 30

($ thousands)		Rubber Compounding	Engineered Products: AEP	Engineered Products: Railway Products	Total
Gross Margin	**2008**	**4,096**	**3,406**	**339**	**7,841**
	2007	3,751	1,145	784	5,680
Increase (decrease) $		345	2,261	(445)	2,161
% net of sales	**2008**	**8.3**	**21.4**	**11.6**	**11.5**
	2007	9.4	10.3	13.6	10.0

Nine months ended September 30

($ thousands)		Rubber Compounding	Engineered Products: AEP	Engineered Products: Railway Products	Total
Gross Margin	**2008**	**11,090**	**9,916**	**1,292**	**22,298**
	2007	10,842	4,238	1,848	16,928
Increase (decrease) $		248	5,678	(556)	5,370
% net of sales	**2008**	**8.0**	**21.8**	**11.6**	**11.4**
	2007	8.4	13.5	12.2	9.6

Rubber Compounding

The gross margin for the quarter ended September 30, 2008 declined by 1% compared to the prior year as a result of the volatility of certain key raw materials, exchange fluctuations and customer mix changes. Margin declines were most detrimental at the end of the third quarter as increases in carbon black and synthetic rubber beyond what was anticipated could not be completely passed along in the form of price increases until well into October.

Commodity prices for key raw materials such as synthetic rubber and carbon black are at all-time highs at the beginning of the fourth quarter. Despite reduced industry demand, there remains shortages for certain materials. This will continue to impact margins in the fourth quarter. There are signs that relief from these prices could be felt very early in 2009. Natural rubber prices have dropped dramatically for first quarter 2009 deliveries and the combination of a stronger US dollar, lower oil prices and reduced worldwide demand should eventually impact synthetic rubber, chemical and carbon black prices.

AirBoss Engineered Products

Gross margin at AEP increased by $2.3 million during the third quarter of 2008 compared with 2007. Year-to-date margins as a percentage of sales have improved by 8.3% due to the efficiencies of higher volumes and a favourable product mix.

Railway Products

Gross margin decreased by $0.6 million for the nine-month period as a result of the lower sales volumes.

EXPENSES

Three months ended September 30

($ thousands)		Rubber Compounding Operations	Engineered Products: AEP & Other	Engineered Products: Railway Products	Unallocated Corporate Costs	Total
Operating expenses	**2008**	**2,110**	**1,542**	**359**	**479**	**4,490**
	2007	1,899	1,428	418	519	4,264
Increase (decrease) $		211	114	(59)	(40)	226
% net of sales	**2008**	**4.3**	**9.7**	**12.3**	**N/A**	**6.6**
	2007	4.8	12.9	7.3	N/A	7.5

Nine months ended September 30

($ thousands)		Rubber Compounding Operations	Engineered Products: AEP & Other	Engineered Products: Railway Products	Unallocated Corporate Costs	Total
Operating expenses	**2008**	**6,725**	**4,741**	**1,148**	**869**	**13,483**
	2007	5,191	5,037	1,173	1,539	12,940
Increase (decrease) $		1,534	(296)	(25)	(670)	543
% net of sales	**2008**	**4.8**	**10.4**	**10.3**	**N/A**	**6.9**
	2007	4.0	16.1	7.8	N/A	7.4

Rubber Compounding
Q3 2007 operating expenses included $0.3 million exchange gains whereas Q3 2008 included only $0.1 million of exchange gains.

AirBoss Engineered Products
AEP operating costs in the third quarter ended September 30, 2007 included $0.2 million in foreign exchange losses with no material exchange gain or loss in Q3 2008.

Railway Products
The expenses were comparable year-over-year.

Unallocated Corporate Costs
Corporate costs in the quarter ended September 30, 2008 were slightly lower than last year relating to higher exchange gains reduced by higher salaries, option expenses and professional fees. The year-to-date balances include $0.9 million foreign exchange gains earned primarily in the first quarter.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $3.1 million or an effective income tax rate for the year of 35.0% (20.5% in 2007).

The primary factor contributing to a higher effective tax rate:

- 2007 included net foreign exchange translation gains in US entities not subject to tax representing a tax reduction of $0.5 million. After adjusting for this, the effective tax rate in 2007 would have been 33.8%.

NET INCOME AND EARNINGS PER SHARE

Net income in the third quarter of 2008 amounted to $2.0 million and $1.1 million in 2007. The basic and fully diluted earnings per share in the quarter were $0.09 (2007-$0.05) based on basic and fully diluted shares outstanding 23,805 (2007-23,805) and 23,805 (2007-23,995) respectively.

QUARTERLY INFORMATION

($ thousands except per share amounts)

	Net Sales	Net Income (Loss)		Net Income (Loss) Per Share	
Quarter Ended	Continuing Operations	Continuing Operations	Total	Basic	Diluted
September 30, 2008	68,096	2,027	2,027	0.09	0.09
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	1,157	1,150	0.05	0.05
December 31, 2006	52,949	(95)	(8)	0.00	0.00

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 $3.7 million in operating cash flows before changes in working capital compared to $1.9 million in 2007 from higher net income and unrealized foreign exchange losses.

Non-cash working capital
The investment in non-cash working capital relating to continuing operations increased by $14.6 million in the quarter as follows:

Accounts receivable increased by $8.4 million due to:

- Rubber Compounding receivables increased $7.1 million from the timing of sales and collections relating to a major account
- AEP receivables increased $0.9 million from higher defense sales
- Railway receivables increased $0.4 million

Inventories increased by $2.8 million due to significant raw material cost increases in Rubber Compounding. Volume had declined in the quarter by approximately 10% and masks the real increase of rising raw material costs.

Accounts payable decreased by $ 5.1 million:

- Rubber Compounding payables decreased by $4.3 million primarily as a result of inventory prepayments from overseas procurement
- AEP payables decreased $ 0.5 million

Taxes payable increased by $1.9 million:

- The Company received $0.9 million tax refunds relating to its 2007 tax returns
- Tax provisions exceeded required tax installments for fiscal 2008

Capital expenditures

Capital expenditures were $0.6 million for the quarter and $2.9 million year-to-date compared to $1.2 million and $2.7 million respectively in 2007.

Other assets

The net change in other assets was not material in the third quarter of 2008.

Financing

Subsequent to the quarter end, unprecedented volatility in exchange rates and liquidity that could have an impact on the availability of credit, margins, exchange gains and losses, as well as higher borrowing costs in future reporting periods.

Management has addressed these conditions as follows:

1. Determined that the Company's current and long-term lenders were not directly involved in sub-prime lending, and increased the Company's borrowing capacity. The current facility has, however, been impacted by the global liquidity environment as short-term libor and banker acceptances have replaced bank prime borrowings.
2. Monitored its demand loan position. As the US dollar strengthened, it decreases borrowing capacity established in Canadian dollars. A 30% strengthening in the US dollar effectively increases $15 million of US borrowings by $4.5 million. When combined with an increase in inventory financed from higher raw material costs, exchange rate changes and the need to prepay for certain materials subject to worldwide shortages, demand loan requirements increase accordingly. During the third quarter, the Company entered into negotiations to replace $10 million of its demand loan facility with term debt and reduce interest rate volatility – this transaction was completed October 1, 2008. This had the effect of increasing our operating borrowing capacity to compensate for changing conditions.
3. Reviewed credit limits and terms granted to all customers as well as current trends. AirBoss sells mainly to the industry leaders in the sectors we service. While this does not make us immune to credit risk, we hope that it will serve us well in the immediate future.
4. Continued efforts to balance net monetary assets weekly as a natural hedge to minimize exchange gains and losses.

As of November 10, 2008, drawings against the demand loan have decreased by 30%.

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 the Company's 2007 Annual Report. For the nine-month period ended September 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.

At September 30, 2008, the Company has contracts to sell US $2 million between October and November, 2008 at a rate of 1.0182.

TRANSACTIONS WITH RELATED PARTIES

The Company rents corporate office space from a company controlled by the Chairman of the Company. This lease provides for an annual rental of $90,000 payable monthly and expires in August 2012. The lease provides for the purchase of the building should certain events occur which are beyond the control of the Chairman. The annual rental of $90,000 approximated the fair market rental at the inception of the lease in 2002. The rent paid in the third quarter was $30,000 ($22,500 in 2007).

During the third quarter, the Company paid monthly dues relating to a facility in South Carolina of approximately $4,800 ($4,900 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 previous quarter and was paid July 24, 2008.

Outstanding shares
As at November 11, 2008, the Company had 23,805,423 common shares outstanding.

Subsequent event
On October 1, 2008, the company obtained an additional senior secured loan facility for $10 million Canadian, at a fixed rate of 6.39%, financed over a 7 year term with a 15 year amortization and interest only (no principle payments required) until October 15, 2011. The proceeds were used to reduce its US operating line so there was no net increase in its overall borrowing capacity. As well, the company renewed its operating facility to provide $35 million of current borrowings at slightly higher rates reflecting current cost of borrowings.

The $5 million forward contract was settled October 27, 2008.

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.

Management's Responsibility for Financial Reporting

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.

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 improvement in the year-over-year performance of the Company is attributable to the Defense and Engineered Products divisions and this is expected to continue for the remainder of the year. While the Rubber Compounding Division is essentially flat compared to previous years it has outperformed the industry over the last quarter in some very difficult times. As a result of being a low-cost high-quality producer, management is focused on maintaining this position in the future.

The impact of raw material prices continues to be the greatest concern. It is a challenge to manage increases which, for certain key material are in excess of 25% a quarter. Not only does this impact margins negatively but it affects our customers and demand for their products. The increases further stretch working capital requirements and increases credit risk. Fortunately the Company has strong financial partners and sells to industry leaders. Demand from new customers has helped to offset business based declines from existing ones. Part of this increased activity is in recognition of our stable base.

Logic would dictate that commodity price relief, which has already been felt elsewhere, will eventually impact the rubber industry in some meaningful fashion. The first signs of this are with natural rubber. Prices for synthetic rubber, chemicals and carbon black should follow suit in the beginning of 2009.

The decline in the Canadian dollar should improve short term results in the Defense Products division and have a marginally positive impact on Rubber compounding. It also increases working capital requirements, however, as most raw materials are purchased in US dollars.

While accurate forecasting when key parameters are fluctuating so quickly and dramatically is increasingly more difficult, the Company feels that it will continue to perform well in the defense sector and increase market share in Rubber Compounding.

R.L. Hagerman
President and Chief Executive Officer

S.W. Richards
Vice-President Finance and CFO

Notice of Disclosure of Non-Auditor Review of Interim Financial Statements

For the three month periods ended September 30, 2008 and 2007

Pursuant to Ontario Securities Legislation's National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company for the interim periods ended September 30, 2008 and 2007, have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the Company's management.

The Company's independent auditors, KPMG LLP, have not performed a review of these interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Dated this 11th day of November, 2008.

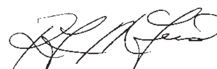
Consolidated Balance Sheets

(thousands $ CDN)	September 30, 2008	December 31, 2007
	(unaudited)	
ASSETS		
Current assets:		
Accounts receivable	$ 46,846	$ 29,346
Inventories	38,260	24,181
Prepaid expenses	1,616	1,102
Income taxes receivable	-	2,322
Total current assets	86,722	56,951
Capital assets	55,384	56,085
Goodwill	16,620	16,620
Future income tax assets	4,785	4,258
Other assets	4,662	4,622
Total assets	$ 168,173	$ 138,536
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Demand loan	$ 38,927	$ 20,893
Accounts payable and accrued liabilities	26,834	21,239
Income taxes payable	1,666	-
Dividends payable	-	595
Current portion of term loan and other debt	1,389	1,361
Total current liabilities	68,816	44,088
Term loan and other debt	15,441	16,083
Future income tax liabilities	9,412	9,673
Accrued post retirement benefit liability	2,192	1,965
Total liabilities	95,861	71,809
Commitments and contingencies (Note 5)		
Shareholders’ equity:		
Share capital	40,537	40,537
Contributed surplus	1,792	1,491
Accumulated other comprehensive loss	(674)	(823)
Retained earnings	30,657	25,522
Total shareholders’ equity	72,312	66,727
Total liabilities and shareholders’ equity	$ 168,173	$ 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 September 30 2008	2007 (note 1)	Nine months ended September 30 2008	2007 (note 1)
NET SALES	**$ 68,096**	$ 56,703	**$ 195,987**	$ 175,728
Cost of sales	**60,255**	51,023	**173,689**	158,800
Gross margin	**7,841**	5,680	**22,298**	16,928
OPERATING EXPENSES				
General and administrative	**2,389**	1,614	**7,167**	6,761
Selling, marketing and distribution	**1,361**	1,196	**3,996**	3,877
Product research	**235**	199	**821**	640
Total operating expenses	**3,985**	3,009	**11,984**	11,278
Income before undernoted items	**3,856**	2,671	**10,314**	5,650
Other expense (income)	**(146)**	306	**(474)**	(891)
Income before interest expense	**4,002**	2,365	**10,788**	6,541
Interest expense	**651**	949	**1,973**	2,553
Income before income taxes	**3,351**	1,416	**8,815**	3,988
Provision for income taxes	**1,324**	265	**3,085**	819
Net income	**2,027**	1,151	**5,730**	3,169
Dividends	**-**	-	**(595)**	(595)
Retained earnings, beginning of period	**28,630**	24,021	**25,522**	22,598
Retained earnings, end of period	**$ 30,657**	$ 25,172	**$ 30,657**	$ 25,172
From net income - Basic and Diluted	**$ 0.09**	$ 0.05	**$ 0.24**	$ 0.13

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income

(unaudited) (thousands $ CDN)	Three months ended September 30 2008	2007	Nine months ended September 30 2008	2007
Net Income	**$ 2,027**	$ 1,151	**5,730**	$ 3,169
Other comprehensive loss - net of income tax:				
Change in foreign currency translation losses on self-sustaining foreign operations	**83**	(252)	**149**	(623)
Comprehensive income	**$ 2,110**	$ 899	**5,879**	$ 2,546
Accumulated other comprehensive loss, beginning of period	**$ (757)**	$ (529)	**$ (823)**	$ (158)
Accumulated other comprehensive income (loss) - net of income tax	**83**	(252)	**149**	(623)
Accumulated other comprehensive loss, end of period	**$ (674)**	$ (781)	**$ (674)**	$ (781)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(unaudited) (thousands $ CDN)	Three months ended September 30 2008	2007	Nine months ended September 30 2008	2007
CASH PROVIDED BY (USED IN):				
Operating Activities:				
Net income from operations	**$ 2,027**	$ 1,151	**$ 5,730**	3,169
Items not affecting cash:				
Amortization	**1,298**	1,206	**3,974**	3,598
Gain on disposal of capital assets	**-**	-	**-**	(42)
Future income taxes	**(134)**	(111)	**(788)**	(57)
Foreign exchange (gain) loss	**278**	(530)	**373**	(1,672)
Options expense	**108**	76	**301**	228
Post-retirement benefits expense	**76**	78	**227**	234
	3,653	1,870	**9,817**	5,458
Changes in non-cash operating working capital balances	**(14,590)**	(855)	**(22,490)**	(4,191)
Net cash provided by (used in) operating activities	**(10,937)**	1,015	**(12,673)**	1,267
Cash provided by (used in) operating activities	**(10,937)**	1,015	**(12,673)**	1,267
Investing Activities:				
Purchase of capital assets	**(552)**	(1,163)	**(2,934)**	(2,655)
Proceeds of disposal of capital assets	**-**	-	**-**	45
Increase in other assets	**(39)**	(127)	**(302)**	(452)
Cash used in investing activities	**(591)**	(1,290)	**(3,236)**	(3,062)
Financing Activities:				
Net increase in demand loan	**12,446**	1,314	**18,055**	3,639
Increase in term loan	**-**	-	**-**	-
Repayment of term loan	**(323)**	(444)	**(956)**	(1,127)
Settlement of other debt	**-**	-	**-**	(213)
Dividends paid	**(595)**	(595)	**(1,190)**	(595)
Issuance of share capital	**-**	-	**-**	91
Cash provided by financing activities	**11,528**	275	**15,909**	1,795
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	**$ 629**	$ 795	**$ 2,188**	$ 2,355
Net cash income taxes remitted (refunded)	**(593)**	1,284	**(16)**	5,366

See accompanying notes to consolidated financial statements.

Three and nine months ended September 30, 2008 and 2007

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**

No stock options were granted during the third quarter of 2008.

During the third quarter ended September 30, 2008, the Company recorded stock-based compensation of $108,000 ($75,000 in 2007) relating to current and prior year option grants in general and administrative expenses of the statement of income. For the nine month year-to-date period, the expense was $301,000 compared to $226,000 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.

NOTE 4 FUTURE RETIREMENT BENEFITS

During the nine-month-periods September 30, 2008 and 2007, the Company’s future retirement benefit expenses were $76,000 and $78,000 respectively. For the nine-month year-to-date period, the expense was $226,000 compared to $234,000 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 $30,000 for the three-month period ended September 30, 2008 ($22,500 in 2007). The Company paid dues relating to a facility in South Carolina of approximately $4,800 for the three-month period ($4,900 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. 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 September 30, 2008, the Company has contracts to sell US $2 million between October and November, 2008.

NOTE 6 SEGMENTED INFORMATION

	Sales excluding inter-company				
	Canada	US	Other	Total	Inter-company
Three-months ended September 2008					
Rubber Compounding Operations	16,947	32,247	60	49,254	2,253
AEP and Other	4,075	11,596	255	15,926	2,298
Railway Products	-	2,916	-	2,916	-
Total	21,022	46,759	315	68,096	4,551
Three-months ended September 2007					
Rubber Compounding Operations	17,384	21,772	692	39,848	634
AEP and Other	2,385	7,869	841	11,095	1,444
Railway Products	-	5,353	407	5,760	-
Total	19,769	34,994	1,940	56,703	2,078

	Rubber Compounding Operations	AEP & Other	Railway Products	Corporate and Inter-company Eliminations	Total
Three-months ended September 2008					
Sales	51,507	18,224	2,916	(4,551)	68,096
Cost of sales	47,411	14,818	2,577	(4,551)	60,255
	4,096	3,406	339	-	7,841
Operating expenses	2,110	1,542	359	479	4,490
Income before income taxes	1,986	1,864	(20)	(479)	3,351
Provision for income taxes					(1,324)
Net income					2,027
Purchase of capital assets	463	47	40	2	552
Amortization of capital assets and other assets	738	451	91	10	1,290

	Rubber Compounding Operations	AEP & Other	Railway Products	Corporate and Inter-company Eliminations	Total
Three-months ended September 2007					
Sales	40,482	12,539	5,760	(2,078)	56,703
Cost of sales	36,731	11,394	4,976	(2,078)	51,023
	3,751	1,145	784	-	5,680
Operating Expenses	1,899	1,428	418	519	4,264
Income before income taxes	1,852	(283)	366	(519)	1,416
Provision for income taxes					(266)
Net income					1,150
Purchase of capital assets	618	418	126	1	1,163
Amortization of capital assets and other assets	734	357	85	30	1,206

	Sales excluding inter-company				
	Canada	US	Other	Total	Inter-company
Nine-months ended September 2008					
Rubber Compounding Operations	54,865	83,794	702	139,361	3,781
AEP and Other	8,938	34,812	1,775	45,525	6,450
Railway Products	-	11,101	-	11,101	-
Total	63,803	129,707	2,477	195,987	10,231
Nine-months ended September 2007					
Rubber Compounding Operations	59,431	68,168	1,645	129,244	1,321
AEP and Other	6,781	22,244	2,346	31,371	4,716
Railway Products	-	14,025	1,088	15,113	-
Total	66,212	104,437	5,079	175,728	6,037

	Rubber Compounding Operations	AEP & Other	Railway Products	Corporate and Inter-company Eliminations	Total
Nine-months ended September 2008					
Sales	143,142	51,975	11,101	(10,231)	195,987
Cost of sales	132,052	42,059	9,809	(10,231)	173,689
	11,090	9,916	1,292	-	22,298
Operating expenses	6,725	4,741	1,148	869	13,483
Income before income taxes	4,365	5,175	144	(869)	8,815
Provision for income taxes					(3,085)
Net income from continuing operations					5,730
Assets employed					
Canada	90,357	45,577	-	882	136,816
US	23,531	261	5,919	(20)	29,691
Total	113,888	45,838	5,919	862	166,507
Purchase of capital assets	1,922	888	122	2	2,934
Amortization of capital assets and other assets	2,290	1,363	252	50	3,955
Goodwill	7,944	7,182	1,494	-	16,620
Nine-months ended September 2007					
Sales	130,565	36,087	15,113	(6,037)	175,728
Cost of sales	119,723	31,849	13,265	(6,037)	158,800
	10,842	4,238	1,848	-	16,928
Operating expenses	5,191	5,037	1,173	1,539	12,940
Income before income taxes	5,651	(799)	675	(1,539)	3,988
Provision for income taxes					(819)
Net income from continuing operations					3,169
Assets employed					
Canada	73,795	43,747	-	1,805	119,347
US	18,485	-	5,293	-	23,778
Total	92,280	43,747	5,293	1,805	143,125
Purchase of capital assets	1,549	853	253	-	2,655
Amortization of capital assets and other assets	2,191	1,053	254	100	3,598
Goodwill	7,944	7,182	1,494	-	16,620

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 14.2% (2007: 17.8%) 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.

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	**(7,951)**	(8,539)
Variable rate instruments		
Financial assets	**4,368**	3,500
Financial liabilities	**(47,558)**	(29,564)
Total	**(50,991)**	(43,855)

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 would have increased or decreased net income in the quarter by $13,000 (2007: $14,000).

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	(62)	71
2007		
Variable rate instruments	(61)	64

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 five 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 46.0% and 49.0% of sales in 2008 and 2007 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 quarter end, the Company had drawn $38.5 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 $7 million has been recorded at its fair market value of $33,200 and is recorded as a liability against other assets.

NOTE 8 SUBSEQUENT EVENT

On October 1, 2008, the Company obtained an additional senior secured loan facility for $10 million Canadian, at a fixed rate of 6.39%, financed over a 7 year term with a 15 year amortization and interest only (no principal payments required) until October 15, 2011. The proceeds were used to reduce its US operating line so there was no net increase in its overall borrowing capacity. As well, the Company renewed its operating facility to provide $35 million of current borrowings at slightly higher rates reflecting the current cost of borrowings.

The $5 million forward contract was settled October 27, 2008.

AirBoss of America Corp.

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