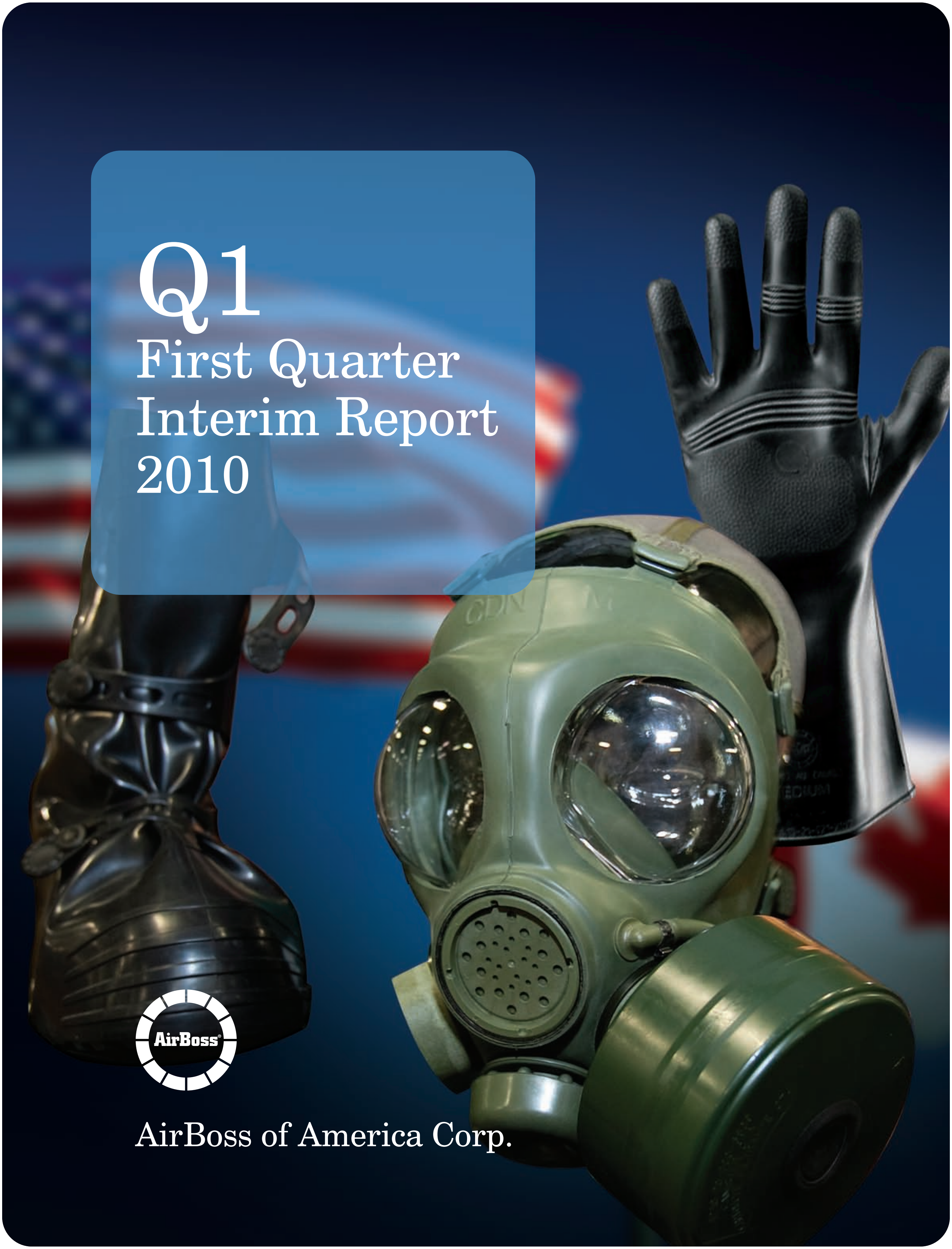
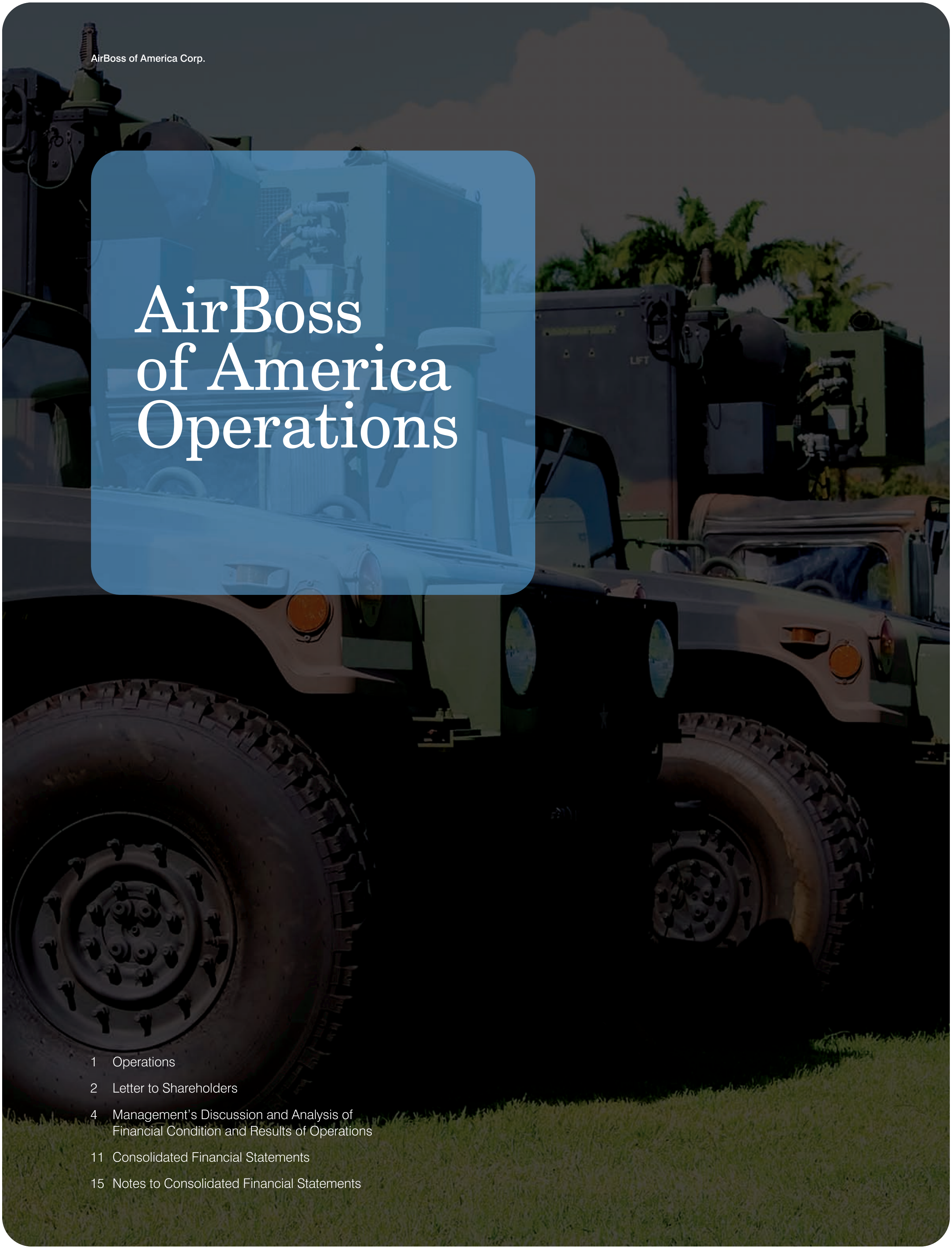


Q1 First Quarter Interim Report 2010

AirBoss of America Corp.



AirBoss of America Operations

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

Rubber Compounding

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

Military and Industrial Products

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

To Our Shareholders

AirBoss-Defense

AirBoss Engineered Products group sales increased 2% and operating income increased 58% mostly from Defense product sales.

Divisional defense product sales for the quarter ended March 31, 2010 increased by 47% in US dollars; however this was offset by an average of 20% decline in the US dollar and lower sales of gas masks resulting in a 1% increase in CDN dollars. In the first quarter of 2010, approximately 87% of sales are billed in US dollars. Divisional EBIT increased by 24% compared to the same period in 2009 due mainly to favourable product mix. The increased sales result from the continued high level of demand since the second quarter of 2009 for CBRN ("Chemical, Biological, Radiological and Nuclear") products.

The new manufacturing facility in Milton, Vermont commenced injection molding of the CBRN gloves in January 2010. By February, the facility was operating at efficient and economic production levels and by March, production had increased to three shifts. This facility will represent a key initiative in the introduction of the next generation over-boots and provide increased US input costs offsetting the effect of a rising Canadian dollar.

Field testing of the new injection molded CBRN over-boot continues along with the final optimization of production tooling. The introduction of this product represents the next generation of our world leading CBRN over-boot, enhancing performance while reducing production costs. The first commercial orders for this product have been received from NATO countries.

The Company is actively identifying and pursuing opportunities to increase the soldier protection product line.

AirBoss Rubber Compounding

Sales for the Rubber Compounding Division were comparable to the previous year as a 23% increase in volume was offset by the decline in US dollar sales due to exchange. Virtually all raw materials are purchased in US dollars; however, the business was able to record an operating profit for the quarter. Further increases in volumes are forecast for the second quarter although we still believe that a return to previous highs will take another eighteen months to achieve. The Company anticipates a recovery to 75% of peak volumes by the end of 2010. This plan is dependent on continued successful new market development.

Raw material prices have generally risen over the period with increases in natural rubber being the most significant. We have been successful in offering joint raw material purchasing with key customers which allows some extended price protection while maintaining responsible working capital levels.

Q1 2010 Highlights:

- EBITDA and EPS up 171% and 610% compared to Q1 2009
- EPS $0.13 vs $0.02 from Q1 2009
- Increase in volumes at both Defense and Rubber Compounding Divisions
- New Defense products plant in Vermont operating efficiently on 3 shifts
- Quarterly dividend increased by 50% to $0.03 commencing in Q2 2010

Outlook

The improved financial performance of the last six months of 2009 has been sustained throughout the first quarter of 2010. If this continues for the full year it will result in a doubling of year-over-year earnings per share in 2010 compared to 2009. We are off to a good start!

AirBoss-Defense should continue to grow over the next nine months based on the forecasted key CBRN product requirements for major customers. Preliminary scheduling indicates that the first and fourth quarters will record the highest sales. With the new US production capacity operating at expected efficiencies, we are confident we can accommodate these forecasts and continue to achieve manufacturing efficiency gains.

The recovery of the rubber compounding industry is underway, and while the rate of improvement remains somewhat difficult to predict, there is reason for some controlled enthusiasm. Certain key sectors, such as mining, have shown significant recovery while others have stabilized. There is still significant overcapacity in the industry, and while highly competitive conditions will remain, we expect to progress towards historical levels of profitability in 2010.

The financial condition of the Company continues to be strong with an excellent net working capital position of $39 million and a substantial unused borrowing capacity of $34.5 million.

P.G. Schoch
Chairman

R.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-month period ended March 31, 2010 has been prepared as of May 12, 2010 and should be read in conjunction with the Unaudited 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 on SEDAR at www.sedar.com and on 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 and mining 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; and the impact of general economic conditions.

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

- $0.13 EPS. Third consecutive strong quarter.
- Rubber Compounding returns to profitability; Defense maintaining consistently strong results
- Vermont Injection molding operating within expectations

Selected Financial Information

Three months ended March 31 ($ thousands, except per share amount)	2010	2009
Financial results:		
Net sales	**53,885**	53,085
Net income	**3,032**	422
Net income per share - Basic and diluted	**0.13**	0.02
EBITDA (non-GAAP financial measure)	**6,345**	2,338
Net cash provided by (used in) operations	**(3,925)**	5,159
Dividends declared per share	**0.02**	-
Capital expenditures	**401**	1,050
Financial position:		
Total assets	**134,977**	134,752
Demand loan	**1,985**	-
Term loan and other debt	**24,866**	25,370
Shareholders’ equity	**72,698**	69,993
Outstanding shares (in 000’s)	**23,911**	23,899

Non-GAAP Financial Measures

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

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

EBITDA, a non-GAAP measure, is directly derived from the consolidated financial statements, but does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to a similar measure 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:

	2010	2009
EBITDA:		
Net income before non-controlling interest	**3,032**	469
Net financing interest expense	**369**	524
Depreciation and amortization	**1,199**	1,154
Provision for income taxes	**1,745**	191
EBITDA	**6,345**	2,338

MD&A (cont'd)

RESULTS OF OPERATIONS – 2010 compared to 2009

NET SALES FROM CONTINUING OPERATIONS

Net Sales revenues from continuing operations increased 1.5%. Approximately 87% (2009 – 84%) of all sales are invoiced in US Dollars. The average exchange rate (CAD to USD) was $1.04 in 2010 compared to $1.24 in 2009.

		Rubber Compounding Operations	AEP & Other	Total
Net sales	**2010**	**35,052**	**18,833**	**53,885**
	2009	34,624	18,461	53,085
Increase (decrease) $		428	372	800
Increase (decrease) %		1.2	2.0	1.5

Rubber Compounding
Sales dollars increased by 1.2% for the quarter ended March 31, 2010 mainly as a result of a 20% increase in volumes, or $8 million, from improved economic conditions in North America. This was partially offset by a 20 cent decline in the US dollar, or $6.5 million, compared to the first quarter of 2009. Customer mix favoring lower cost products accounted for $1 million decline in sales dollars compared to 2010.

Most sectors have contributed higher volumes compared to the same quarter in the previous year particularly solid tire, track, and automotive products. Further increases in volumes are forecasted in the second quarter as the industry continues to recover and new markets are successfully developed.

AirBoss Engineered Products
Sales increased by $0.4 million to $18.8 million or by 2% in the first quarter of 2010 compared to the same quarter of the previous year.

AirBoss-Defense US product sales increased by $3.7 million for the quarter primarily from volume; however this was offset by approximately $2.2 million decline in the US dollar and $1 million decrease in the sale of Canadian gas masks. Quantities sold of Chemical Biological Radiological and Nuclear ("CBRN") military over-boots increased by 15% and CBRN protective hand wear increased by 133% compared to 2009.

Industrial product sales decreased $0.8 million for the quarter from a 20 cent decline in the US dollar on US denominated sales.

GROSS MARGIN

Gross margin for the quarter ended March 31, 2010 was $8.0 million, an increase of $3.0 million compared to 2009 primarily attributable to higher margins on Defense and Industrial product sales. The percentage margin increased from 9.4% to 14.7%.

		Rubber Compounding Operations	AEP & Other	Total
Gross Margin	**2010**	**1,805**	**6,113**	**7,918**
	2009	691	4,290	4,981
Increase (decrease) $		1,114	1,823	2,937
% of net sales	**2010**	**5.1**	**32.5**	**14.7**
	2009	2.0	23.2	9.4

Rubber Compounding
Gross margin for Rubber Compounding increased by $1.1 million as follows:

- $0.2 million from increased volumes;
- $1.4 million from higher production levels decreasing unit conversion costs and better customer mix; and,
- $0.5 million was attributed to a loss in margin due to the decline in the US dollar in the quarter on opening raw material inventory purchased in US dollars

Virtually all raw materials are purchased in US dollars and raw material prices have risen over this period, particularly natural rubber. To mitigate this effect, Rubber Compounding has offered key customers the ability to lock in certain commodity prices through a joint purchasing arrangement.

AirBoss Engineered Products
Gross margin for AirBoss-Defense had increased by $1.0 million due to higher AirBoss-Defense sales and a favourable sales product mix. The higher volumes of injection molded gloves and hand assembled over-boots increased plant utilization and efficiency and reduced per unit fixed costs.

Gross margins in Industrial Products increased $0.8 million from higher production volumes and manufacturing efficiencies as well as $0.3 million recovery of CSST premiums from a prior year.

OPERATING EXPENSES

Operating Expenses for the quarter ended March 31, 2010 were $0.3 million lower than in 2009 primarily in Rubber Compounding. As a result, the costs decreased as a percentage of sales and are 5.6% in 2010 compared to 6.3% in the previous year.

		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Operating expenses	**2010**	**1,298**	**1,129**	**609**	**3,036**
	2009	1,566	1,148	612	3,326
Increase (decrease) $		(268)	(19)	(3)	(290)
% of net sales	**2010**	**3.7**	**6.0**	**N/A**	**5.6**
	2009	4.5	6.2	N/A	6.3

Rubber Compounding
Operating expenses decreased by $0.3 million as follows:

- Lower general and admin salaries $0.1 million; telephone and professional fees $0.1 million
- Lower sales travel expenses $0.1 million

AirBoss Engineered Products
Operating costs decreased slightly as Industrial customers required fewer development trials in the current quarter.

Unallocated Corporate Costs
There was no material change.

INTEREST, FOREIGN EXCHANGE AND OTHER INCOME

		Rubber Compounding Operations	AEP & Other	Unallocated Corporate Costs	Total
Interest, FX & Other Income	**2010**	**229**	**70**	**(194)**	**105**
	2009	467	(49)	577	995
Increase (decrease) $		(238)	119	(771)	(890)
% of net sales	**2010**	**0.7**	**0.4**	**N/A**	**0.2**
	2009	1.3	(0.3)	N/A	1.9

Rubber Compounding
The current quarter’s results include $0.2 million of allocated interest costs due to lower debt levels. The 2009 results, however, reflected foreign exchange loss of $0.1 million and $0.4 million of allocated interest.

AirBoss Engineered Products
During 2010, the division recorded $0.1 million miscellaneous expenses, $0.1 million of interest, and $0.1 million foreign exchange gains. In 2009, the division recorded $0.1 million miscellaneous income, $0.1 million in foreign exchange gains and $0.1 million of allocated interest.

Unallocated Corporate Costs
During 2010, unallocated corporate costs included foreign exchange gains of $0.2 million on US debt (2009 - $0.6 million loss).

INCOME TAX EXPENSE

The Company recorded an income tax expense of $1.7 million or an effective income tax rate for the period of 36.5% (29.0% in 2009).

The primary factor contributing to the higher effective tax rate in 2010:

- The re-measurement of the tax benefit of US losses recognized in future income tax assets represented an additional tax expense of $0.1 million

NET INCOME AND EARNINGS PER SHARE

Net income in Q1 2010 amounted to $3 million compared to net income of $0.4 million in 2009 primarily attributable to improved margins and lower operating costs in the compounding segment. The basic and fully diluted net income from continuing operations per share were $0.13 (2009-$0.02) in the first quarter of 2010 based on basic and fully diluted shares outstanding 23,903,000 (2009-23,805,000) and 24,096,000 (2009-23,805,000) respectively.

MD&A (cont'd)

QUARTERLY INFORMATION

		Net Income (Loss)		Net Income (Loss) Continuing Operations per share		Net Income (Loss) per share	
Quarter Ended	Net Sales	Continuing	Total	Basic	Diluted	Basic	Diluted
March 31, 2010	53,885	3,032	3,032	0.13	0.13	0.13	0.13
December 31, 2009	57,729	2,637	2,637	0.11	0.11	0.11	0.11
September 30, 2009	50,562	3,820	3,820	0.16	0.16	0.16	0.16
June 30, 2009	48,545	(603)	(603)	(0.03)	(0.03)	(0.03)	(0.03)
March 31, 2009	53,085	422	422	0.02	0.02	0.02	0.02
December 31, 2008	74,008	(6,950)	(6,756)	(0.29)	(0.29)	(0.28)	(0.28)
September 30, 2008	65,467	2,133	2,079	0.09	0.09	0.09	0.09
June 30, 2008	64,805	2,547	2,771	0.11	0.11	0.12	0.12

Items impacting comparability of quarters

- The fourth quarter of 2008 reflected a goodwill impairment charge of $7.9 million.
- The first and second quarter of 2009 was impacted by lower margins in Rubber Compounding attributable to higher raw material costs not recovered from customers.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from continuing operations
AirBoss generated $4.0 million in operating cash flows before changes in working capital, $1.7 million higher than 2009, from higher net income.

Non-cash working capital
The investment in non-cash working capital relating to continuing operations increased by $7.9 million in 2010 as follows:

Accounts receivable increased by $5.0 million due to:

- Rubber Compounding receivables increased $5.3 million from the timing of certain receipts.
- AEP receivables decreased $0.3 million from lower sales.

Prepaid expenses increased by $0.2 million.

Inventories decreased by $1.6 million due to:

- The rubber compounding segment experienced a $0.5 million decrease in inventory as a result of sales volumes and exchange on US raw material purchases
- AEP's inventory decreased by $1.1 million due to sales volumes and exchange on US raw material purchases.

Accounts payable decreased by $2.6 million primarily relating to lower inventory purchases:

- Rubber Compounding payables decreased by $2.0 million
- AEP payables decreased by $0.5 million.

Taxes payable had decreased by $1.6 million. The Company has paid $2.8 million toward 2009 taxes subsequent to year end and recovered $0.2 million relating to a previous year. Current tax provisions exceeded required remittances by $1 million.

Capital expenditures
Capital expenditures were $0.4 million in the first quarter of 2010 compared to $1 million in 2009. 2010 capital expenditures included $0.1 million relating to the building and $0.3 million relating to manufacturing equipment.

Other assets
The net change in other assets includes $0.1 million net increase in the carrying value of forward contracts.

Financing
No modifications to the operating line and term loan facility were negotiated in the first quarter of 2010.

The required principal payments of $0.3 million (2009 - $0.4 million) were made pursuant to the loan agreement.

$1 million of dividends declared in 2009 were paid out in the quarter.

At March 31, 2010, $0.5 million was drawn against its operating line (2009 - $9.4 million). The line of credit is $35 million.

The Company expects to fund its 2010 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

In the normal course of business, the Rubber Compounding Division entered into negotiations in the first quarter of 2010 to replace leased forklift equipment with new leases. The commitments were finalized subsequent to quarter end. The following summarizes the incremental minimum lease payment during the term:

		Payments Due In					
	Total	2010	2011	2012	2013	2014	Thereafter
Operating leases	333	148	81	72	23	9	-

Forward exchange contracts

At March 31, 2010, the Company has contracts to sell US $27.5 million between April and November 2010 for CAD $29.7 million and contracts to sell GBP 0.2 million between April and May 2010 for CAD $0.4 million.

The fair value of these contracts of $1.6 million is recorded on the balance sheet included in “other assets” and foreign exchange gains and losses are recorded on the income statement as “foreign exchange gain (loss).”

Government assistance

AirBoss-Defense received $58,000 of federal grants in the first quarter related to employee training and labour incentives in Vermont. It is expected that total grants for the year will be $142,000. This has been reflected on the income statement in “cost of sales.”

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 first quarter was $22,500 ($22,500 in 2009).

During the year, the Company paid annual dues relating to a facility in South Carolina of approximately $5,000 ($4,000 in 2009) to a company in which the Chairman is an officer.

In 2009, the Company renewed a $0.1 million share purchase loan to an employee, due December 2, 2011 bearing interest at 2.5% annually with full recourse and is included in the financial statements under the caption “other assets”, and 30,000 shares of the Company having a fair value of $0.1 million were pledged as collateral.

NEW ACCOUNTING POLICIES

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 will issue its financial statements in the first quarter of 2011 in accordance with IFRS including comparative data for 2010. The Company disclosed its preliminary IFRS accounting policy decisions in the 2009 Annual Management’s Discussion and Analysis and we are progressing according to our plan. At this point we have not completed our quantification process and as a result, cannot determine the full impact of IFRS on our consolidated financial statements.

Business Combinations

In January 2009, the CICA issued Handbook Section 1582, “Business Combinations” (“CICA 1582”). CICA 1582 requires that all assets and liabilities of an acquired business will be recorded at fair value on the acquisition date and is consistent with International Financial Reporting Standards (“IFRS”). Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011 with earlier adoption permitted.

In January 2009, the CICA issued Handbook Section 1601, “Consolidations” (“CICA 1601”), and Section 1602, “Non-controlling Interests” (“CICA 1602”). CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 with earlier adoption permitted. The Company is currently assessing the impact of the new standard on its financial statements.

Management's Responsibility for Financial Reporting

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three-month period ended March 31, 2010, 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 improved financial performance of the last six months of 2009 has been sustained throughout the first quarter of 2010. If this continues for the full year it will result in a doubling of year-over-year earnings per share in 2010 compared to 2009. We are off to a good start!

AirBoss-Defense should continue to grow over the next nine months based on the forecasted key CBRN product requirements for major customers. Preliminary scheduling indicates that the first and fourth quarters will record the highest sales. With the new US production capacity operating at expected efficiencies, we are confident we can accommodate these forecasts and continue to achieve manufacturing efficiency gains.

The recovery of the rubber compounding industry is underway, and while the rate of improvement remains somewhat difficult to predict, there is reason for some controlled enthusiasm. Certain key sectors, such as mining, have shown significant recovery while others have stabilized. There is still significant overcapacity in the industry, and while highly competitive conditions will remain, we expect to progress towards historical levels of profitability in 2010.

The financial condition of the Company continues to be strong with an excellent net working capital position of $39 million and a substantial unused borrowing capacity of $34.5 million.

May 12, 2010

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 March 31, 2010 and 2009

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 March 31, 2010 and 2009 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 12th day of May, 2010

Consolidated Balance Sheets

(thousands $ CDN)	**March 31, 2010**	December 31, 2009
	(unaudited)	
ASSETS		
Current assets:		
Cash	**-**	3,660
Accounts receivable	**32,929**	27,931
Inventories	**31,659**	33,282
Prepaid expenses	**976**	748
Income taxes receivable	**776**	-
Total current assets	**66,340**	65,621
Capital assets	**52,780**	53,496
Goodwill	**7,182**	7,182
Future income tax assets	**5,789**	5,666
Other assets	**2,886**	2,787
Total assets	**134,977**	134,752
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Demand loan	**1,985**	-
Accounts payable and accrued liabilities	**23,413**	26,054
Income taxes payable	**-**	866
Dividends payable	**478**	956
Current portion of term loan and other debt	**1,385**	1,402
Total current liabilities	**27,261**	29,278
Term loan and other debt	**23,481**	23,968
Future income tax liabilities	**8,938**	8,955
Accrued post retirement benefit liability	**2,599**	2,558
Total liabilities	**62,279**	64,759
Commitments and contingencies (Note 5)		
Shareholders’ equity:		
Share capital (Note 3)	**41,004**	40,962
Contributed surplus	**1,693**	1,584
Retained earnings	**30,001**	27,447
Total shareholders’ equity	**72,698**	69,993
Total liabilities and shareholders’ equity	**134,977**	134,752

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 Comprehensive Income

(unaudited) (thousands $ CDN, except per share amounts)

For the three-month periods ended March 31	2010	2009
NET SALES	53,885	53,085
Cost of sales	45,967	48,104
Gross margin	7,918	4,981
OPERATING EXPENSES		
General and administrative	2,044	2,092
Selling and marketing	857	996
Product research	135	238
Total operating expenses	3,036	3,326
Income before undernoted items	4,882	1,655
Other income (expense)	(45)	177
Foreign exchange gain (loss)	309	(648)
Interest expense	(369)	(524)
Interest, foreign exchange and other expense	(105)	(995)
Income before income taxes and controlling interest	4,777	660
Provision for income taxes	1,745	191
Net income before non-controlling interest	3,032	469
Net income attributable to non-controlling interest	-	(47)
Net income and comprehensive income	3,032	422
Net income per share (Note 4)		
Basic and Diluted	0.13	0.02

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(unaudited) (thousands $ CDN)

For the three-month periods ended March 31	2010	2009
CASH PROVIDED BY (USED IN):		
Operating Activities:		
Net income	**3,032**	422
Items not affecting cash:		
Amortization	**1,199**	1,154
Future income taxes	**(140)**	(58)
Non-controlling interest	**-**	47
Foreign exchange (gain) loss	**(322)**	588
Stock option expense	**151**	92
Post-retirement benefits expense	**41**	73
	3,961	2,318
Net change in non-cash working capital balances	**(7,886)**	4,140
Net cash provided by (used in) continuing operations	**(3,925)**	6,458
Net cash used in discontinued operations	**-**	(1,299)
Cash provided by (used in) operating activities	**(3,925)**	5,159
Investing Activities:		
Purchase of capital assets	**(401)**	(1,050)
Decrease (increase) in other assets	**(38)**	3,117
Cash provided by (used in) investing activities	**(439)**	2,067
Financing Activities:		
Net increase (decrease) in demand loan	**1,985**	(6,275)
Repayment of term loan	**(325)**	(355)
Dividends paid	**(956)**	(596)
Cash provided by (used in) financing activities	**704**	(7,226)
Decrease in cash during the period	**(3,660)**	-
Cash and short-term deposits at the beginning of the period	**3,660**	-
Cash and short-term deposits at the end of the period	**-**	-
Supplementary Cash Flow Information:		
Cash Interest paid	**334**	480
Cash income taxes remitted	**3,536**	3,434

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(thousands $ CDN)	Common shares				
	Amount	Number of shares	Contributed surplus	Retained Earnings	Total Shareholders' Equity
		(000's)			
Balance, December 31, 2009	40,962	23,899	1,584	27,447	69,993
Net income for the period	-	-	-	3,032	3,032
Dividends declared	-	-	-	(478)	(478)
Stock option expense	-	-	151	-	151
Exercise of stock options	42	12	(42)	-	-
Balance, March 31, 2010	41,004	23,911	1,693	30,001	72,698

(thousands $ CDN)	Common shares					
	Amount	Number of shares	Contributed surplus	Non-controlling interest	Retained Earnings	Total Shareholders' Equity
		(000's)	(000's)			
Balance, December 31, 2008	40,537	23,805	1,911	-	23,245	65,693
Change in accounting policy related to Goodwill and Intangible assets (Note 2)	-	-	-	-	(527)	(527)
As restated, January 1, 2008	40,537	23,805	1,911	-	22,718	65,166
Net income for the period	-	-	-	-	422	422
Non-controlling interest	-	-	-	47	-	47
Stock option expense	-	-	92	-	-	92
Balance, March 31, 2009	40,537	23,805	2,003	47	23,140	65,727

Notes to Consolidated Financial Statements

Three months ended March 31, 2010 and 2009

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These unaudited interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, and its joint venture over which the Company has significant control (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. However, certain additional disclosures are required for annual financial statements, and 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, 2009. 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 2009.

Seasonality

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

NOTE 2 CHANGES IN ACCOUNTING POLICIES

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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 will issue its financial statements in the first quarter of 2011 in accordance with IFRS including comparative data for 2010. The Company disclosed its preliminary IFRS accounting policy decisions in the 2009 Annual Management’s Discussion and Analysis and we are progressing according to our plan. At this point we have not completed our quantification process and as a result, cannot determine the full impact of IFRS on our consolidated financial statements.

NOTE 3 CAPITAL TRANSACTIONS

	March 31, 2010	December 31, 2009
Number of common shares outstanding	**23,910,642**	23,899,023
Number of options outstanding	**2,003,000**	1,933,000

Stock Options

During the first quarter of 2010, 120,000 options were granted.

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

Assumptions	
Risk-free rate	**2.8%**
Dividend yield	**1.60%**
Volatility factor of the expected market price of the Company’s shares	**48.8%**
Average expected option life (years)	**5.0**
Weighted-average grant date fair value per share of options granted during the period	**1.99**

Also during the first quarter of 2010, 50,000 options were exercised on a cash-less basis for 11,619 shares.

Stock Based Compensation

During the quarter, the Company recorded stock-based compensation on a graded vesting model basis of $151,000 ($92,000 in 2009) relating to current and prior year option grants in general and administrative expenses of the statement of income.

Dividends

A quarterly dividend on common shares for 2009 was paid April 21, 2010 at a rate of $0.02 per share for shareholders of record at March 31, 2010.

Normal Course Issuer Bid (“NCIB”)

Subsequent to the end of the first quarter of 2010, the Company purchased for cancellation 7,800 of its outstanding common shares pursuant to the NCIB for a purchase price of $39,000.

Notes to CFS (cont'd)

NOTE 4 EARNINGS PER SHARE

The following table sets forth the calculation of basic and diluted earnings per share:

December 31	**2010**	2009
Numerator for basic and diluted earnings per share:		
Net income	**3,032**	422
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	**23,903**	23,805
Dilution effect of stock options	**193**	-
Diluted weighted average number of shares outstanding	**24,096**	23,805
Net income per share:		
- Basic and diluted	**0.13**	0.02

NOTE 5 COMMITMENTS, CONTINGENCIES AND RELATED PARTY TRANSACTIONS

Commitments

In the normal course of business, the Rubber Compounding Division entered into negotiations in the first quarter of 2010 to replace leased forklift equipment with new leases. The commitments were finalized subsequent to quarter end. The following summarizes the incremental minimum lease payment during the term:

		Payments Due In					
	Total	2010	2011	2012	2013	2014	Thereafter
Operating leases	333	148	81	72	23	9	-

At December 31, 2009, the Company has contracts to sell US $27.5 million between April and November, 2010 for CAD $29.7 million (2009 - US $24 million to December 31, 2009 for CAD $29.3 million) and contracts to sell GBP 0.2 million between January and May 2010 for CAD $0.4 million.

In connection with the sale of the assets of the Railway business, the Company may be subject to product liability claims for a period of 2 years relating to product sold as of December 15th, 2008. The Company does not anticipate that product liability claims will have a material impact on the financial condition of the Company as it maintains product liability coverage related to such claims.

Related Party Transactions

Included in the operating lease commitments is a rental agreement for corporate office space between the Company and a company controlled by the Chairman of the Company. The lease provides for monthly payments equivalent to an annual rental of $90,000 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 per annum approximated fair market rental value at the inception of the lease in 2002. 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 ending March 31, 2010 ($22,500 in 2009).

During the quarter, the Company paid annual dues relating to a facility in South Carolina of approximately $5,000 ($4,000 in 2009) to a company in which the Chairman is an officer.

In 2009, the Company renewed a $0.1 million share purchase loan to an employee due December 2, 2011 bearing interest at 2.5% annually with full recourse and is included in the balance sheet under the caption "other assets". Interest is recorded in interest income.

Government assistance

AirBoss-Defense received $58,000 of federal grants in the first quarter related to employee training and labour incentives in Vermont. It is expected that total grants for the year will be $142,000. This has been reflected on the income statement in "cost of sales".

Litigation

In 2004, the Company commenced an Action in the Superior Court of Quebec claiming funds due pursuant to the 1999 Agreement of Purchase and Sale whereby AirBoss acquired the assets of Acton International Inc. Part of the claim was settled pursuant to the filing in May 2007 of a Declaration of Settlement with one of the defendants for substantially the full amount of their 32% share of the Company's claims. The remaining claims amount to $2.4 million plus accrued interest of which $1.2 million relates to an environmental claim for clean-up work completed by the Company and $1.2 million relates to a reduction in purchase price due to the sales of military footwear not reaching specified targets by 2001.

The remaining defendants have filed a counterclaim against the Company in the amount of $5.8 million plus interest. The trial in this matter is scheduled before the Superior Court of Québec from May 3, 2010 to June 2, 2010. The Company has recorded their claims as recoverable from the Defendants, in the case of the environmental claim when the clean-up costs were incurred and in the case of the purchase price reduction when the conditions were met giving rise to the claim in 2001.

NOTE 6 POST RETIREMENT BENEFITS

During the three-month periods March 31, 2010 and 2009, the Company’s future retirement benefit expenses were $41,000 and $73,000 respectively.

NOTE 7 SEGMENTED INFORMATION

The Company is comprised of two significant business segments, each of which has a separate operational management. The Rubber Compounding segment produces custom rubber compounds used in various industrial applications. The AirBoss Engineered Products segment (“AEP”) produces rubber protective products, including footwear and gloves, and further processed rubber compounds.

Net sales by geographic segment is presented to eliminate intercompany sales. Inter-company amounts, which represent items purchased from different segments, have been presented within the segment disclosure and are eliminated to arrive at the consolidated amounts. The Company operates within North America with respect to its rubber compound and railway products and globally with respect to its rubber protective products, and has production facilities in Canada and the United States.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. The Company evaluates performance of its operating segments based on operating income.

Assets employed include accounts receivable, inventories, prepaid expenses, capital assets, goodwill and other assets.

	Net sales excluding inter-company				
	Canada	US	Other	Total	Inter-Company
2010					
Rubber Compounding Operations	12,223	22,733	96	35,052	2,844
AEP and Other	1,631	15,959	1,243	18,833	2,773
Total	13,854	38,692	1,339	53,885	5,617
2009					
Rubber Compounding Operations	12,793	21,747	84	34,624	705
AEP and Other	2,943	13,529	1,989	18,461	3,321
Total	15,736	35,276	2,073	53,085	4,026

	Rubber Compounding Operations	AEP & Other	Corporate and Intercompany Eliminations	Total
2010				
Net sales	37,896	21,606	(5,617)	53,885
Operating income (loss)	507	4,984	(609)	4,882
Amortization of capital assets and other assets	647	531	21	1,199
Purchase of capital assets	161	240	-	401
Goodwill	-	7,182	-	7,182
Assets employed				
Canada	66,188	39,622	2,773	108,583
US	21,373	5,021	-	26,394
Total	87,561	44,643	2,773	134,977

	Rubber Compounding Operations	AEP & Other	Corporate and Intercompany Eliminations	Total
2009				
Sales	35,330	21,781	(4,026)	53,085
Operating income (loss)	(875)	3,142	(612)	1,655
Amortization of capital assets and other assets	671	461	22	1,154
Goodwill impairment charge	-			-
Purchase of capital assets	473	572	5	1,050
Goodwill	-	7,182	-	7,182
Assets employed				
Canada	66,953	41,679	1,777	110,409
US	22,570	-	-	22,570
Total	89,523	41,679	1,777	132,979

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