AIRBOSS OF AMERICA CORP.

RESEARCH
DEVELOPMENT
TECHNOLOGY
FOCUS
INCREASED CAPACITY
GROWTH

STRATEGIES FOR SUCCESS

2004 ANNUAL REPORT

AIRBOSS OF AMERICA CORP.

AirBoss of America Corp. develops, manufactures and sells high quality, proprietary rubber-based products offering enhanced performance and productivity. The Company is focused on the manufacturing of quality rubber compounds as well as specialty rubber and plastic moulded products.

AirBoss is one of North America's largest custom rubber mixers with a capacity to supply over 200 million pounds of rubber annually to a diverse group of rubber products manufacturers.

AirBoss engineers and moulds rubber and plastic products for the transportation, military and industrial markets as well as for its own proprietary designs of military protective wear.

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2004 FINANCIAL HIGHLIGHTS

(millions, except shares and per share)	2004	2003
Net Sales	**$ 192.6**	$ 159.0
Gross Margin	**27.6**	18.9
Earnings Before Interest, Taxes and Amortization from Continuing Operations (EBITDA) (Note 1)	**17.0**	9.1
Interest	**2.8**	2.8
Net Earnings from Continuing Operations	**5.2**	0.7
Shareholders' Equity	**$ 54.0**	$ 52.0
Number of Shares Outstanding	**22,623,923**	22,536,923
Per Common Share		
Net Earnings (Loss) from Continuing Operations		
– Basic	**0.23**	0.03
– Diluted	**0.23**	0.03
Net Income – Basic	**0.08**	(0.19)
– Diluted	**0.08**	(0.19)
EBITDA Per Share (Basic) (Note 1)	**0.75**	0.40
Return on Equity from Continuing Operations	**10%**	1%

FIVE YEAR FINANCIAL HISTORY

(millions, except shares and per share)	2004	2003	2002	2001	2000
Net Sales	**$ 192.6**	$ 159.0	$ 162.6	$ 142.6	$ 112.8
Gross Margin	**27.6**	18.9	27.7	26.1	25.2
Net Earnings from Continuing Operations	**5.2**	0.7	5.8	5.9	4.4
Net Income	**1.7**	(4.3)	3.6	3.2	2.7
Cash Flow	**11.6**	5.0	11.0	12.9	9.4
Shareholders' Equity	**$ 54.0**	$ 52.0	$ 56.3	$ 59.7	$ 56.5
Number of Shares Outstanding	**22,623,923**	22,536,923	22,526,923	22,499,423	22,499,423
Per Common Share					
Net Earnings (Loss) from Continuing Operations – Basic	**0.23**	0.03	0.26	0.26	0.20
– Diluted	**0.23**	0.03	0.25	0.26	0.20
Net Income – Basic	**0.08**	(0.19)	0.16	0.14	0.12
– Diluted	**0.08**	(0.19)	0.16	0.14	0.12

Note 1 – The Company discloses EBITDA (earnings before interest, taxes and amortization from continuing operations), a financial measurement used by interested parties as a measure of cash flow. EBITDA does not have a standardized meaning prescribed by GAAP and is not comparable to similar measures presented by other issuers. EBITDA is not a measure of performance under GAAP and should not be considered in isolation or as a substitute for net income under GAAP.

	2004	2003
Income from continuing operations before income tax	**$ 7.6**	$ 1.1
Interest	**2.8**	2.8
Amortization from continuing operations	**6.6**	5.2
EBITDA from continuing operations	**$ 17.0**	$ 9.1

Letter to Shareholders

Sales from continuing operations increased by 21% for the year ended December 31, 2004 primarily as a result of increased volumes in our rubber compounding business. This increase was also reflected in Net Income from continuing operations which increased to $5.2 million for 2004 from $0.7 million in 2003.

AIRBOSS RUBBER COMPOUNDING

Sales of rubber compound increased by 34% in volume and by 37% in dollars compared to 2003. Our mixing facility in Kitchener has been operating at or near capacity since the second quarter as a result of increased demand from the industrial, mining and energy sectors. This demand is expected to remain strong for the foreseeable future particularly as it relates to rubber products used in coal mining and energy generation plants.

In December 2004 AirBoss announced the first of a three part plan to increase capacity by 40% over a 2 year period. The first phase, which represents a 10% increase, became operational in North Carolina in January 2005. It will serve as a temporary capacity boost while new equipment with an initial rated capacity of 50 million pounds is commissioned in a permanent southeastern United States facility. Phase two is expected to be operational by the end of 2005. The third phase will see this capacity boosted to 80 million pounds. Consistent with our existing operations, the new mixing facility will employ the latest in automated mixing technology.

Raw material price volatility continues to have an impact on the industry. Synthetic rubber prices have doubled in the last eighteen months with a majority of the increase occurring in the last six months of 2004. Margins typically become compressed during periods of rising commodity prices and 2004 was no exception. Increased volume has allowed some of this compression to be offset by increased absorption of fixed overhead costs. A stabilization of material prices combined with the further volume increases anticipated for 2005 should allow us to increase the return on assets employed in this business.

AIRBOSS ENGINEERED PRODUCTS

AirBoss-Defense – The single most important accomplishment of the year was the adoption of the AirBoss molded CBRN (Chemical Biological Radiological and Nuclear) glove as the glove of choice by major military services. Sales volume of this product increased by 174% in 2004. It now represents a significant portion of total CBRN product sales. Sales are expected to continue to remain strong as we are entering 2005 with a very healthy backlog of orders.

Production initiatives were centered on maximizing glove injection molding volumes and efficiencies. There are additional opportunities to reduce the cost of CBRN and ECW (Extreme Cold Weather) military boot production through the adoption of the successful cellular production methods currently employed on firefighter boots.

Strategic emphasis in 2005 will be on increased penetration of European military markets and domestic first response markets and the introduction of CBRN product enhancements as a result of the use of advanced rubber compounds. In order to maintain our leadership role in this industry we intend to continue our commitment to develop new technologies in protective wear.

We are anticipating another year of strong growth from this business.

Industrial Products – Consisting mainly of the production of calendared and extruded rubber products for industrial and recreational use, this key value added business faced many of the same challenges due to rising material prices as the rubber compounding division. In spite of this, sales increased by approximately 10% during the year. Capital allocations to maintain and improve manufacturing efficiency have been approved based on the strong performance of this business over the last six months of 2004.

AIRBOSS RAILWAY PRODUCTS

Sales of track fastening systems and margins for certain key products continue to be adversely affected by the strong Canadian dollar and by increasing steel prices. While the new year has brought the opportunity to adjust pricing for our steel fastening clip, current steel price levels may affect the amount of track construction in 2005. Despite these conditions, demand for our products has increased in the first quarter of 2005.

The Company is still waiting for the ruling from the U.S. Court of Appeal concerning the patent lawsuits.

OUTLOOK

The high level of customer demand experienced in 2004 for the Company's key products is expected to continue in 2005. This optimism is partially a function of favourable economic conditions in many of the primary markets that we serve such as mining, energy generation and military protective wear. All of these markets have increasing requirements for our products. It is also a function of our commitment to product development, quality and service.

The immediate short and medium term requirements for additional rubber compound production capacity have been filled in a manner which we believe will enhance our overall customer service and financial performance. The financing of our investment in the first two phases of this key strategic expansion is already in place.

While demand is high, raw material input costs are also forecast to remain at the high end of their ten year historical price ranges. A significant reduction is not required for us to meet our objectives.

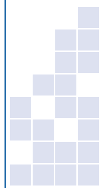
Financial performance is also expected to improve due to the elimination of losses from non-core discontinued operations such as commercial footwear and segmented tires.

While our immediate expansion plans for 2005 have been established, we will continue to look for strategic opportunities from both a geographic and product perspective to grow all of our key businesses and enhance financial performance.

We would like to express our appreciation to our employees, for their contributions over the last year and to our Directors for their guidance. The support of shareholders in the last year has been appreciated and we are optimistic that they will continue to be rewarded in the future.

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 has been prepared as of March 14, 2005 and should be read in conjunction with the Consolidated Financial Statements and Notes prepared in accordance with Canadian Generally Accepted Accounting Principles. Additional information relating to the Company, including the Company's Annual Information Form, is available on Sedar at www.sedar.com.

AirBoss Forward-Looking Statement Disclaimer – *This report contains forward-looking statements, which reflect management's best judgment based on factors currently known but involve significant risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including but not limited to risks more fully described in the "Risk Factors" section below, and other risks detailed in filings with the Ontario Securities Commission. Such forward-looking information should be evaluated in the context of these factors. These forward-looking statements are made as of the date of this annual report and management assumes no obligation to update or revise these statements to reflect new events or circumstances.*

COMPANY PROFILE

AirBoss of America Corp. (the "Company") develops, manufactures and sells high-quality, proprietary rubber-based products offering enhanced performance and productivity. The Company also develops, markets and sells a number of rail fastening systems to America's largest railroads.

Selected Annual Information

Year ended December 31 (thousands of dollars except per share amounts)	**2004**	2003	2002
Sales	**$ 192,595**	$ 159,027	$ 162,583
Net earnings from continuing operations	**5,200**	745	5,795
Net earnings (loss)	**1,732**	(4,310)	3,557
Net earnings per share – continuing operations – Basic	**0.23**	0.03	0.26
– Diluted	**0.23**	0.03	0.25
Net earnings (loss) per share – Basic	**0.08**	(0.19)	0.16
– Diluted	**0.08**	(0.19)	0.16
Total assets	**122,164**	119,260	128,276
Demand loan	**12,483**	13,835	11,944
Current portion of term loan and other debt	**4,096**	4,142	3,777
Long-term financial liabilities	**17,500**	20,500	24,006
Cash dividends declared	**$ –**	$ –	$ –

Rubber Compounding – The Company is one of North America's leading custom rubber mixers with the capacity to supply over 200 million pounds annually. Its rubber mixing facilities are located in Kitchener, Ontario; Acton Vale, Quebec; and as of January 2005, Waynesville, North Carolina. Approximately two thirds of its customers are located in the United States.

Rubber compounds are utilized in many industries, the largest being tire manufacturing. AirBoss Rubber Compounding is one of the few rubber compounders in North America who, due to the nature of its equipment and its stringent quality assurance procedures, are approved suppliers to major tire companies. The majority of its business is serving a wide range of customers in the mining, energy generation and transportation industries. The Company provides custom compound formulation and independent testing services from accredited laboratory facilities in Kitchener, Ontario.

AirBoss is a major consumer of natural rubber, synthetic rubber and carbon black. These materials are sourced from world markets and are typically paid for in U.S. dollars.

Railway Products Division – The Railway Products Division, located in Kansas City, MI., engineers, develops and sells railway track fastening systems. The Company is a major supplier of these systems to the largest railroads in the U.S.. The key products sold are elastic fastening systems consisting of steel spring clips, polymer protective pads and polymer insulators. The steel clip is manufactured by the Company's joint venture in Saskatchewan (see AirBoss Engineered Products, Inc. below) while the polymer product manufacture is outsourced using Company owned tooling.

AirBoss Engineered Products ("AEP") – This segment includes AirBoss Engineered Products, Inc. (previously known as Acton International Inc.), and AirBoss of America's clip manufacturing joint venture. AirBoss Engineered Products Inc., is the largest component of this segment representing over 95% of net segment sales. Located in Acton Vale, Quebec, AEP is a world leader in the development and sale of Chemical, Biological, Radiological and Nuclear ("CBRN") protective wear. Under the name AirBoss-Defense, these products are sold to major militaries and First Response customers in North America and Europe. Principal CBRN products include rubber overshoes, gloves and gasmasks which utilize AirBoss' extensive expertise in rubber compound formulation. AEP also manufactures and sells firefighter boots and Extreme Cold Weather ("ECW") military footwear.

In addition to its defense and first response products AirBoss Engineered Products sells extruded and calendared rubber products serving the recreational, agricultural and industrial markets.

RESULTS OF OPERATIONS – 2004 compared to 2003

SALES

Sales revenues from continuing operations increased 21% despite the continued decline in the U.S. dollar.

($000)	Rubber Compounding Operations	Engineered Products		Total
		Railway Products	AEP & Other	
Net Sales – 2004	$ 129,161	$ 18,304	$ 45,130	**$ 192,595**
– 2003	93,959	21,545	43,523	**159,027**
Increase (decrease) $	$ 35,202	$ (3,241)	$ 1,607	**$ 33,568**
Increase (decrease) %	37%	(15%)	4%	**21%**

Rubber Compounding – Sales volumes increased by 34% for the year ended December 31, 2004 while the sales in dollars increased by 37%. The slight increase in the average selling price per pound reflects that portion of significant increases in raw material prices which the Company was able to pass along to customers offset by the decline, in Canadian dollars, of U.S. dollar denominated revenues.

Sales volumes have been affected by many factors, including an increased demand in key markets served, a contraction in direct competitive capacity, and a general increase in rubber consumption led by the tire industry. Sales of rubber products for the mining, energy generation and major tire sectors accounted for over 85% of the increased sales. The mixing operations have been operating at or near capacity since the middle of the second quarter of 2004.

Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

Railway Products – Sales in Canadian dollars fell $3.2 million or 15%. Almost one-half of this decline, or 8%, is due to foreign currency translation and the remainder, or 7% is due to a variety of factors, the most important of which is a slight curtailment of purchases by the major railways due to rising steel prices.

AirBoss Engineered Products – Sales increased by $1.6 million or 4% due to over all growth in the military business and a combination of volume growth and price increases in the industrial business. Sales of CBRN gloves and firefighter footwear were the primary contributors to this increase along with price increases in industrial rubber products to recover major raw material price increases.

GROSS MARGINS

Gross margins for the year ended December 31, 2004 increased $8.6 million to $27.6 million. The percentage margin also improved from 11.9% to 14.3%.

		Engineered Products		
($000)	**Rubber Compounding Operations**	**Railway Products**	**AEP & Other**	**Total**
Gross Margins – 2004	14,081	2,518	10,957	**27,556**
– 2003	8,563	4,437	5,924	**18,924**
Increase (decrease) $	5,518	(1,919)	5,033	**8,632**
% of net sales – 2004	10.9%	13.7%	24.3%	**14.3%**
– 2003	9.1%	20.6%	13.6%	**11.9%**

Rubber Compounding – The increase in margin as a percentage of sales was mainly due to the increased capacity utilization at our Kitchener mixing facilities. The production process is capital intensive and the 34% increase in sales volume provided a larger base upon which to amortize fixed costs. The resulting margin gains were almost totally offset by a combination of a shift in product sales mix towards lower margin products and an increase in raw material costs. There is typically a lag between the incurrence of increased material costs and price increases which negatively impacts margins.

Railway Products – Gross margins declined by $1.9 million, of which approximately $0.3 million is attributed to the currency translation of this U.S. based business. The remaining decline of $1.6 million was due to an increase in steel prices leading to manufacturing cost increases for steel fastening clips which could not be passed along to customers until 2005.

AirBoss Engineered Products – Gross margins at AEP improved by $5.0 million during the year. The increase is primarily due to the elimination of additional costs associated with the two month labour disruption in 2003. This helped to reduce production variances and additional costs by over $2 million. There was also a favourable shift in military product mix, process cost reductions for injection moulding and the recovery in 2004 of a portion of the rubber raw material price increases experienced in 2003.

The military product mix change was derived from an increase in the sale of CBRN gloves and a decrease in the sale of masks. Production costs of gloves decreased as a result of injection moulding process improvements which eliminated unfavourable cost variances.

EXPENSES

($000)	Rubber Compounding Operations	Engineered Products		Unallocated Corporate Costs	Total
		Railway Products	AEP		
Operating expenses – 2004	9,509	2,514	5,987	1,934	**19,944**
– 2003	6,980	3,210	5,830	1,770	**17,790**
Increase (decrease) $	2,529	(696)	157	164	**2,154**

Operating expenses increased by $2.2 million. Transportation costs comprise approximately 50% of the increase. Overall, the operating costs declined as a percentage of sales from 11% to 10% benefiting from the economies of scale obtained from higher volumes.

Rubber Compounding – Operating expenses increased by $2.5 million. Of this, $1.0 million was attributed to the cost of shipping 34% more volume. The balance is due to increased selling and administration costs due to the increased volume and to costs associated with the development of plans to expand capacity in 2005. Operating expenses as a percentage of sales remained constant at just over 7%.

Railway Products – As 100% of this division's business is conducted in the U.S., foreign exchange translation accounts for approximately one third of the cost reductions. The remainder is attributed to a reduction in distribution expenses due to lower volume.

AirBoss Engineered Products – AEP operating costs increased by $0.2 million. Approximately one half of the increase originated in the AirBoss-Defense division due to increased selling and distribution costs due to increased U.S. sales. These increases were offset by reductions in selling and general administration cost as certain functions such as rubber purchasing were centralized.

Unallocated corporate costs – Corporate cost increased to reflect added staffing incurred to support the growth the Company has experienced. These have been allocated to operations and the remaining is an $0.2 million increase which is primarily for stock option benefits (Note 9(b)).

Other income – Other income of $0.5 million is comprised of $0.3 million in foreign exchange gains and $0.2 million of royalty and rental income.

RESULTS OF OPERATIONS – 2003 compared to 2002

SALES

The Company was significantly affected by the rapid and unforeseen decline in value of the U.S. dollar. Net sales for the year ended December 31, 2003 declined by $3.6 million from $162.6 million to $159.0 million or 2%. Had the average exchange conversion not fallen from $1.57 in 2002 to $1.40 in 2003 revenues would have increased.

GROSS MARGINS

Gross margins for the year ended December 31, 2003 decreased $8.3 million from $27.2 million to $18.9 million and from 17.0% to 11.9%. The majority of the decline was attributable to significant increases in the cost of raw materials such as natural rubber, synthetic rubber and carbon black. In addition, the volatility of the U.S. currency exchange rate resulted in an approximate $1.1 million write down of U.S. dollar purchased inventories in the Rubber Compounding operations during the first six months of the year and $0.6 million in the foreign currency conversion in the U.S.-based railway division. The Company's AirBoss Engineered Products subsidiary experienced a labour disruption in 2003, which is estimated to have further impacted gross margins by $1.6 million.

Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

EXPENSES

Operating expenses decreased by $0.3 million most of which was directly related to the foreign currency translation of U.S.-based operating expenses.

OTHER EXPENSE

Other expense of $0.7 million is comprised of foreign currency translation losses.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from continuing operations – AirBoss generated $11.6 million in operating cash flows before changes in working capital representing a $6.6 million improvement over 2003. Net earnings from continuing operations of $5.2 million compared to $0.7 million in 2003 was the most significant factor while amortization contributed the balance. The increased operating cash flow funded the growth in non-cash working capital.

Non-cash working capital – Non-cash working capital requirements increased by $6.8 million during 2004 as follows:

Provided by (used in)	2004	2003
Accounts receivable	$ (4,687)	$ 3,688
Inventories	(9,374)	(154)
Income taxes payable	1,010	(1,225)
Prepaid expenses	220	377
Accounts payable and accrued liabilities	5,999	(1,591)
	$ (6,832)	**$ 1,095**

The predominant reason for the increased non-cash working capital requirement is the 37% increase in sales experienced by the Rubber Compounding business. Accounts receivable increased by $4.7 million yet the number of day's sales in accounts receivable remained virtually unchanged from 2003 at 45 days.

Inventory levels increased by $9.4 million or by 50% compared to a corresponding sales increase of 37% heavily influenced by significant increases during the year in the cost of key raw materials such as synthetic rubber and carbon black. There was also an increased potential for shortages in synthetic rubber as many suppliers placed customers on allocation. Both the price increases and the need to boost safety stocks increased overall inventory levels of raw materials. There were also additional stocks of military products at December 31, 2004 awaiting shipment pursuant to existing orders.

Accounts payable have grown due to both the higher unit cost and volume of materials purchased. The increase in accounts payable is not as large as the percentage increase in inventories as many foreign markets where the Company sources materials require faster payment in exchange for guaranteed supply.

Financing – The Company has been able to finance the growth of its core businesses through internal funds generated by continuing operations. The rapid growth experienced in 2004 required all of the existing line of credit at various peak periods. The improvement in financial results also allowed the Company to remedy technical breaches in two covenants contained in its operating and term loan agreements.

The Company is pursuing a strategy of growth by expanding the capacity of its Rubber Compounding business. The first phase of this plan, which is the purchase and operating of certain equipment in North Carolina, has already been announced.

This sustained growth program will require additional financing and the Company has negotiated term funding commitments of U.S. $6.0 million with its existing term lending syndicate to support equipment purchases which will expand capacity by approximately 25% to 30%.

The Company has similarly negotiated commitments for a new operating line facility of $45 million at very competitive rates to support the additional increase in non-cash working capital requirements expected from growth anticipated during 2005 and 2006. Both loan facilities are in the "due-diligence" phase and are expected to close before March 31, 2005.

Capital expenditures – Capital expenditures of $3.3 million were 17% lower than in 2003. Of this total, approximately $2.4 million was spent in AirBoss Rubber Compounding and $0.7 million in AirBoss Engineered Products Inc. Rubber compounding expenditures focussed on increasing productivity and capacity. The rubber mixing facility has been operating on a "24-7" basis since the middle of the first quarter. A program to minimize downtime was initiated which required investing in such areas as electrical supply, motor replacements, laboratory equipment enhancements, air quality improvements, and environmental upgrades.

The Company actively pursues a policy of continuous improvement of its productive capacity to maintain its reputation as a dependable supplier of quality products. It is also constantly investing in methods to improve production capacity through both procedural and mechanical improvements. To that end, it relies on "six sigma" teams and has hired capable personnel to supplement its efforts.

Outstanding Shares – The only class of voting or equity securities of the Company is its common shares, of which 22,623,923 are currently outstanding and of which a future 2,319,000 are issuable on exercise of currently outstanding options.

2003 compared to 2002 – Non-cash working capital declined by $3.1 million as the result of both the declines in currency translation valuations of U.S. dollar-denominated accounts receivable and the reduction of special one-time projects during the fourth quarter in the railway division. Capital expenditures of $4.0 million were incurred, (of which $2.1 million and $1.9 million were incurred in AirBoss Rubber Compounding and AirBoss Engineered Products Inc. respectively) to enhance and upgrade equipment.

QUARTERLY INFORMATION

(thousands of dollars except per share amounts)

2004		Net Earnings (loss)		Net Earnings Per Share – Continuing Operations		Net Earnings Per Share	
Quarter Ended	**Net Sales**	**Continuing**	**Total**	**Basic**	**Diluted**	**Basic**	**Diluted**
December 31	$ 49,259	$ 792	$ (759)	$ 0.03	$ 0.03	$ (0.03)	$ (0.03)
September 30	49,038	1,363	927	0.06	0.06	0.04	0.04
June 30	50,243	1,498	973	0.07	0.07	0.04	0.04
March 31	44,055	1,547	591	0.07	0.07	0.03	0.03

(thousands of dollars except per share amounts)

2003		Net Earnings (loss)		Net Earnings Per Share – Continuing Operations		Net Earnings Per Share	
Quarter Ended	**Net Sales**	**Continuing**	**Total**	**Basic**	**Diluted**	**Basic**	**Diluted**
December 31	$ 30,346	$ (2,435)	$ (5,723)	$ (0.11)	$ (0.11)	$ (0.25)	$ (0.25)
September 30	38,756	468	133	0.02	0.02	0.01	0.00
June 30	42,169	1,359	608	0.06	0.06	0.03	0.03
March 31	47,756	1,352	672	0.06	0.06	0.03	0.03

Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following table summarizes as of December 31, 2004 certain of our long-term debt and facility lease commitments for each of the next five years and thereafter:

	Payments Due In						
($000)	**2005**	**2006**	**2007**	**2008**	**2009**	**Thereafter**	**Total**
Term debt	$ 3,000	$ 17,500	$ –	$ –	$ –	$ –	$ 20,500
Operating leases	275	195	149	145	127	240	1,131
Total	**$ 3,275**	**$ 17,695**	**$ 149**	**$ 145**	**$ 127**	**$ 240**	**$ 21,631**

OFF-BALANCE SHEET ARRANGEMENTS

The Company did not have any off-balance sheet arrangements at December 31, 2004.

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.

NEW ACCOUNTING STANDARDS

Assets Retirement Obligation – Effective January 1, 2004, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") with regards to asset retirement obligations. The standard provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations and associated retirement costs. It applies to legal obligations pertaining to the retirement of tangible long-lived assets obtained by acquisition, construction, development or normal operations. The standard requires the Company to record the fair value of the liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made.

Stock-based Compensation – Effective January 1, 2004, the Company adopted the amended recommendations of the CICA with respect to stock-based compensation and other stock-based payments. Under these recommendations, a fair value based method of accounting is required for all stock-based payments to non-employees and employees that are direct awards of stock appreciation rights. The Company has applied the new recommendations retroactively, without restatement of prior periods, for awards granted in the 2002 and 2003 fiscal years. As a result, the Company has recorded a charge to opening retained earnings and a corresponding adjustment to contributed surplus of $698 on January 1, 2004, for awards granted in 2002 and 2003.

CRITICAL ACCOUNTING POLICIES

The Company's preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The Company's estimates are based upon historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of the Company's ongoing evaluation of these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amounts for revenues and expenses. Actual results may differ from these estimates under different assumptions.

These estimates and assumptions are affected by management's application of accounting policies. The Company's critical accounting policies are those that affect our Consolidated Financial Statements materially and involve a significant level of judgment by the Company. A summary of the significant accounting policies, including critical accounting policies, is set forth in Note 1 to the Consolidated Financial Statements. The Company's critical accounting policies include accounting for the impairment of long-lived assets, valuation of goodwill, accounting for income taxes and accounting for post-retirement benefits.

Impairment of Long-lived Assets – We review and evaluate our long-lived assets for impairment when events or changes in economic and other circumstances indicate that the carrying value of such assets may not be fully recoverable. The net recoverable value of an asset is calculated by estimating undiscounted future net cash flows from the asset together with the asset's residual value. Future net cash flows are developed using assumptions that reflect the planned course of action for an asset given our best estimate of the most probable set of economic conditions. Inherent in these assumptions are significant risks and uncertainties. In our view, based on assumptions which we believe to be reasonable, no impairment has occurred. It is possible that events or changes in future economic conditions and other circumstances, and the resulting adverse impact on some or all of these assumptions, may require a significant reduction in the carrying value of our remaining long-lived assets and in shareholders' equity. Additional information regarding our accounting for capital assets is contained in Note 5 to the Consolidated Financial Statements.

Valuation of Goodwill – We review and evaluate our goodwill for impairment when an indicator of impairment exists in the underlying reporting units, but at least on an annual basis. In determining whether impairment has occurred in one of our reporting units, we compare the reporting unit's carrying value to its fair value. We determine the fair value of our reporting units on a combination of a market approach and on discounted cash flows. Our determination of fair value is based on a number of assumptions arising from the most current financial performance of each reporting unit, the upcoming annual budget for each reporting unit and the historical variability of earnings. Other factors, such as any foreign exchange volatility and volatility in world markets for rubber and carbon black can also materially alter our expectations. Accordingly, management judgement is required to determine whether these factors at any one point in time, and in light of business initiatives, suggest a major change, positive or negative, to the prospects of the business and, therefore, to the valuation of Goodwill.

Accounting for Income Taxes – The provision for recovery of income taxes is calculated based on the expected tax treatment of transactions recorded in the Consolidated Financial Statements. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and future tax liabilities and assets for the future tax consequences of events that have been recognized in the Consolidated Financial Statements or tax returns. In determining both the current and future components of income taxes, the Company interprets tax legislation in a variety of jurisdictions as well as make assumptions about the expected timing of the reversal of future tax assets and liabilities. If its interpretations differ from those of tax authorities or if the timing of reversals is not as anticipated, the provision or relief for income taxes could increase or decrease in future periods. Additional information regarding our accounting for income taxes is contained in Note 11 to the Consolidated Financial Statements.

Income tax expense (recovery)	2004	2003
Combined federal and provincial statutory income tax	**$ 940**	$ (1,750)
Change in the valuation allowance for future income tax assets	**55**	365
Prior year tax recoveries not previously recorded	**–**	(261)
Adjustments to future income tax assets and liabilities for changes in substantively enacted tax rates	**–**	246
Income tax related to non-deductible expenses	**102**	–
Federal large corporations tax	**91**	196
Foreign tax differential	**(50)**	51
Other	**77**	(48)
Total expense (recovery)	**$ 1,215**	$ (1,201)

Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

Tax expense (recovery)	2004	2003
Continuing Operations	**$ 2,412**	$ 389
Total	**$ 1,215**	$ (1,201)

Accounting for Post-employment Benefits – The cost of providing benefits through defined benefit pension plans and post-retirement benefits other than pensions is actuarially determined. Costs and obligations are dependent upon our assumptions related to future events that are used by actuaries in calculating such amounts. These assumptions include discount rates and the rate of future compensation increase trend rates. In addition, actuarial consultants utilize subjective factors such as withdrawal and mortality rates to determine these factors. The assumptions used may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. Significant differences in actual experience or significant changes in assumptions could materially affect the amount of post-retirements benefit expense and related liabilities. Additional information regarding our accounting for post-retirement benefits is contained in Note 13 to the Consolidated Financial Statements.

RISK FACTORS

Competition – The Company competes directly against major North American companies in the custom rubber compounding, and industrial rubber product market segments. Some of these companies have strong established competitive positions in these markets. In the case of rubber compounding, the industry leader may have greater resources, both financial and technical, than the Company and has long-standing relationships with some of the Company's prospective customers using well-established marketing and distribution networks. Furthermore, since there is a commodity-like element to certain segments of the Company's rubber mixing business, the customers of this business are price sensitive and may be able to purchase their requirements elsewhere in a relatively short period of time. The Company's railway products division competes for the business of major U.S. railroads with the North American subsidiary of a multi-national company, which is larger and may have greater financial resources. The Company's AirBoss-Defense division competes with international companies who may also have greater financial resources or who may be sheltered by domestic tariffs.

Impact of Economic Cycle – The demand for the Company's products can vary in accordance with general economic cycles and the economic conditions of the industry sectors that are served by the Company. In addition, such industry sectors are cyclical in nature. The Company is particularly sensitive to trends in the tire and automotive, construction, mining, retail and rail transportation industries because these industries are significant markets for the Company's business are highly cyclical. For example, the Company's railway fastening business is influenced by the economic conditions of the railroad industry. The railroad industry, in turn, is susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight it transports. If there is an economic slowdown or recession in North America or in the specific markets served by the major railroads, the volume of rail shipments carried by our customers is likely to be reduced, thereby reducing the need for new track construction and maintenance and, in turn, the demand for the Company's railway fastening products.

Raw Materials and Inventory – The Company depends on certain outside sources for raw materials used in the production of its products, the price and availability of which are subject to market conditions. As a result, any unforeseen shortage of such raw materials could delay delivery, increase costs and decrease profitability. The Company does not have long-term supply contracts with its vendors and purchases most raw materials on a purchase order basis. The Company attempts to mitigate certain of the risk of increased prices for raw materials by entering into short term purchase contracts with suppliers fixing prices for deliveries in the future. The price of many raw materials, such as carbon black and synthetic rubber, is directly or indirectly affected by factors such as exchange rates and the price of oil. Although the Company attempts to pass price changes in raw materials on to its customers, the Company may not be able to adjust its prices, especially in

the short-term, to recover the costs of increase in raw material prices. The following table approximates the financial impact (assuming changes are not passed along to its customers) on the Company of a 10% change in the cost of its most critical raw materials based upon purchases made in 2004:

$ Millions Increase (decrease)	Earnings before tax
Natural & synthetic rubber	$ (4.7)
Carbon black	(1.7)

Weather – The Company manufactures rubber compounds used extensively in snowmobile tread manufacture. The annual sales of these compounds depend upon snowmobile sales, which in turn are affected by weather conditions.

Product Liability and Warranty Claims – As a manufacturer of rubber-based products, the Company faces a risk of product liability and warranty claims. Although the Company carries commercial general liability insurance in an amount considered reasonable by industry standards, any claim which is successful and is not covered by insurance or which exceeds the policy limit could have an adverse affect on the Company. No product liability claims have been made against the Company. Warranty claims have not been material and are within industry standard expectations.

Dependence on Key Customers and Contacts – From time to time, a significant portion of the Company's sales for a given period may be represented by a small number of customers. Five customers represented 52% and 46% of sales in 2004 and 2003 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.

Capacity and Equipment – The rubber compounding division has annual capacity to produce approximately 180 to 200 million pounds. The capacity, commencing in January 2005, was increased, by 20 million pounds as the result of an expansion into rubber compounding facilities located in North Carolina. The Company has also made investments in capacity and efficiency in its Acton operations. In recent years, the Company purchased moulds and injection equipment to enhance its presence in military protective products such as CBRN protective gloves, military footwear and gas masks. Should additional equipment be required to fulfill any substantial increases in sales, it can be readily sourced in the market.

Currency Exposure – The Company has revenues and expenses denominated in both Canadian and U.S. dollars. In addition, the cost to the Company of certain key raw materials and other expense items and the competitiveness of prices charged by the Company for its products will be indirectly affected by currency fluctuations. Changes in the value of the Canadian dollar relative to the U.S. dollar could have a material adverse effect on the Company's results of operations. This was particularly evident in 2003. The Company reviews its currency exposure positions from time to time and hedges its exchange risk when it determines it to be advisable. However, there is no assurance that such hedging strategy will be successful or cost effective, and the profitability of the Company's business could be adversely affected by currency fluctuations. The following table approximates the following impact on the Company of a $0.10 increase in the value of one U.S. dollar in Canadian currency:

$ Millions Increase (decrease)	Earnings before tax
Sales[1]	$ 11.5
Purchases[2]	(11.0)

[1]Based upon U.S. dollar-denominated sales in 2004.
[2]Based upon combined 2004 purchases and expenses.

Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

Environmental – The Company handles various chemicals and oils in its manufacturing process, the nature of which may expose it to risks of causing or being deemed to have caused environmental or other damages. While its use of potentially hazardous materials is limited the Company ensures that its operations are conducted in a manner that minimizes such risks and maintains insurance coverage considered reasonable by management. To date, no regulatory authority has required the Company to pay any material fines or remediation expenses in connection with any alleged violation of environmental regulation. However, there can be no assurance that future environmental damage will not occur or that environmental damage due to prior or present practices will not result in future liabilities. The Company is subject to environmental regulation by federal, provincial, state and local authorities. While management believes that the Company is in substantial compliance with all material government requirements relating to environmental controls on its operation, changes in such government laws and regulations are ongoing and may make environmental compliance increasingly expensive. It is not possible to predict future costs, which may be incurred to meet environmental obligations.

The Company's remediation of pre-existing contamination at Acton Vale, Quebec continues. Under the terms of the 1999 purchase agreement, cleanup costs are to be borne by the vendors. Accordingly, the Company does not anticipate any material financial impact from remediation efforts.

Lawsuits – In 2001, the United States District Court for the Western District of Missouri awarded damages of U.S. $3.2 million against AirBoss for patent infringement. In February 2003, the United States Court of Appeals for the Federal Circuit ruling vacated that judgment pending resolution of the issue of the patent's validity. In October 2003, the United States District Court for the Western District of Missouri reinstated the award. The Company, based upon advice of counsel, has appealed this ruling. Accordingly, it has not reflected this award in the financial statements. While no prediction as to the outcome can be made, the Company believes that its appeal will be successful.

OUTLOOK

The increased demand for the Company's key products which was experienced in 2004 is expected to continue in 2005. This is due to favourable conditions in certain industries which are large consumers of rubber compounds including mining, energy generation and transportation. The need for CBRN military protective wear in both Europe and North America is also expected to remain strong.

The immediate requirement for increased capacity in our rubber compounding business has been met with the announced expansion into North Carolina. This temporary facility will increase our capacity by 10%. It commenced production of AirBoss compounds in January 2005. A larger, permanent site with a capacity of 50 million pounds is planned for late 2005 or early 2006. A site will be announced when it is finalized.

While demand for all products is high, raw material costs are also forecast to remain at the high end of their historical price range. We do not require a significant material price reduction to achieve our plans but any further cost increases may have an impact on demand in key markets as, by necessity, these costs must be passed along to customers.

The last production of commercial footwear was in February 2005 and the sale of the tire business should be closed by March 31, 2005.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of AirBoss of America Corp. and all the information in the annual report are the responsibility of management, and have been approved by the Board of Directors. The financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles. When alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented in this annual report and has ensured that it is consistent with that presented in the financial statements.

AirBoss of America Corp. maintains systems of internal accounting and administrative controls consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and all members are outside directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers the engagement or re-appointment of the external auditors for review by the Board and approval by the shareholders.

KPMG LLP, the Company's external auditors, who are appointed by the shareholders, audited the consolidated financial statements as of and for the years ended December 31, 2004 and 2003 in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. KPMG LLP has full and free access to the Audit Committee.

February 25, 2005

R.L. Hagerman
President and Chief Executive Officer

A.G. Breuer
Vice-President Finance

Audited Financial Statements

Auditors' Report to the Shareholders of AirBoss of America Corp. – We have audited the consolidated balance sheets of AirBoss of America Corp. as at December 31, 2004 and 2003 and the consolidated statements of earnings (loss) and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Toronto, Canada, February 25, 2005

Consolidated Balance Sheets

(thousands $ CAD)

As at December 31	2004	2003
		(restated – Note 2)
ASSETS		
Current assets:		
Accounts receivable	$ 24,471	$ 19,784
Inventories (Note 4)	28,228	18,854
Income taxes receivable	–	623
Prepaid expenses	455	675
Discontinued operations (Note 2)	3,917	9,136
	57,071	49,072
Capital assets (Note 5)	45,840	48,416
Discontinued operations (Note 2)	226	2,119
Goodwill	16,620	16,620
Other assets (Note 6)	2,407	3,033
	$ 122,164	$ 119,260
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand loan (Note 7(a))	$ 12,483	$ 13,835
Accounts payable and accrued liabilities	22,133	16,931
Income taxes payable	387	–
Discontinued operations (Note 2)	640	1,307
Term loan and other debt (Notes 7(b), 8)	4,096	4,142
	39,739	36,215
Term loan and other debt (Note 7(b), 8)	17,500	20,500
Future income tax liability (Note 11)	9,780	9,690
Accrued post retirement benefit liability (Note 13)	1,071	834
Shareholders' equity:		
Share capital (Note 9(a))	38,631	38,405
Contributed surplus (Note 9(b))	936	143
Retained earnings	14,507	13,473
	54,074	52,021
	$ 122,164	$ 119,260

Commitments and contingencies (Notes 12, 15).

See accompanying notes to consolidated financial statements.

On behalf of the Board

Robert L. Hagerman, Director

Robert L. McLeish, Director

Consolidated Statements of Earnings (Loss) and Retained Earnings

(thousands $ CAD except per share amounts)

Year ended December 31	**2004**	2003
		(restated – Note 2)
NET SALES	**$ 192,595**	$ 159,027
Cost of sales	**165,039**	140,103
Gross margin	**27,556**	18,924
EXPENSES:		
General and administrative	**8,723**	6,951
Selling, marketing and distribution	**7,450**	6,416
Product research	**1,446**	940
Total operating expenses	**17,619**	14,307
Income from operations	**9,937**	4,617
Interest expense – Demand loan	**(944)**	(755)
– Long-term debt	**(1,837)**	(2,037)
Other income (expense)	**456**	(691)
Income from continuing operations before income taxes	**7,612**	1,134
Provision for income taxes	**2,412**	389
Net income from continuing operations	**5,200**	745
Net (loss) from discontinued operations net of tax (Note 2)	**(3,468)**	(5,055)
Net income (loss)	**1,732**	(4,310)
Retained earnings, beginning of the year	**13,473**	17,783
Stock-based compensation (Note 1(n))	**(698)**	–
Retained earnings, beginning of year as previously restated	**12,775**	17,783
Retained earnings, end of the year	**$ 14,507**	$ 13,473
Net income (loss) per share (Note 10)		
From continuing operations		
– Basic	**$ 0.23**	$ 0.03
– Diluted	**$ 0.23**	$ 0.03
From net income (loss)		
– Basic	**$ 0.08**	$ (0.19)
– Diluted	**$ 0.08**	$ (0.19)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(thousands $ CAD)

Year ended December 31	2004	2003
		(restated – Note 2)
CASH PROVIDED BY (USED IN):		
Operating Activities:		
Net income	$ 5,200	$ 745
Items not affecting cash:		
Amortization	6,649	5,247
Loss on disposal of capital assets	–	28
Future income taxes	90	(567)
Foreign exchange gain	(707)	(626)
Options expense	165	–
Post-retirement benefits expense	237	219
	11,634	5,046
Changes in non-cash operating working capital balances		
Accounts receivable	(4,687)	3,688
Inventories	(9,374)	(154)
Income taxes payable	1,010	(1,225)
Prepaid expenses	220	377
Accounts payable and accrued liabilities	5,999	(1,591)
	(6,832)	1,095
Continuing operations	4,802	6,141
Net change in discontinued operations (Note 2)	2,888	237
Investing Activities:		
Purchase of capital assets	(3,292)	(3,987)
Purchase of other assets	(156)	(1,240)
Proceeds from disposal of capital assets	–	86
	(3,448)	(5,141)
Financing Activities:		
Net increase (decrease) in demand loan	(1,352)	1,891
Repayment of term debt	(3,000)	(3,000)
Payment of other debt	(46)	(140)
Issuance of share capital	156	12
	(4,242)	(1,237)
Increase (decrease) in cash for the year	–	–
Cash and short-term deposits at the beginning of the year	–	–
Cash and short-term deposits at the end of the year	$ –	$ –
Interest paid during the year	$ 2,626	$ 2,841
Income taxes remitted (recovered) during the year	(206)	455

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 2004 and 2003

(thousands except share and per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation – These consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and a proportionate share of joint ventures (collectively, the "Company"). Intercompany balances and transactions have been eliminated upon consolidation.

b) Capital Assets – Capital assets are recorded at cost and are depreciated to the estimated salvage values on the following basis over their expected useful lives:
Buildings – straight-line basis over twenty-five years
Equipment – straight-line basis over five years to fifteen years or on a unit of production basis

The Company reviews the carrying value of its capital assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the carrying amount of an asset that is held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal. The loss is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is measured by discounted cash flows or appraised value, depending on the nature of the asset. For assets available for sale, an impairment loss is recognized when the carrying amount exceeds the fair value less costs to sell.

c) Asset Retirement Obligation – Effective January 1, 2004, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") with regard to asset retirement obligations. The standard provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations and associated retirement costs. It applies to legal obligations pertaining to the retirement of tangible long-lived assets obtained by acquisition, construction, development or normal operations. The standard requires the Company to record the fair value of the liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The Company has determined that it has an obligation to perform environmental remediation to its AirBoss Engineered Products Inc. site, in Acton Vale, Quebec. The Company has obtained competitive quotations from qualified environmental remediation companies. Since the costs of the remediation are recoverable from the previous owners of the facility, the Company has recorded a liability of $550 for the remediation and a claim receivable from the vendors in the same amount. The remediation is expected to be completed in 2005.

d) Inventories – Inventories are recorded at the lower of cost and market. Cost is determined on a first-in, first-out basis. Market is defined as replacement cost for raw materials and net realizable value for work-in-progress and finished goods.

e) Other Assets

(i) Patents – The Company has capitalized the costs incurred to acquire patents. Patent costs are amortized over the life of the patent.

(ii) Product development – The Company has capitalized the costs incurred in developing the products that it plans to bring into commercial production. Product development costs are amortized on a unit-of-production basis. All other product development and research costs are expensed as incurred.

(iii) Deferred financing – Deferred financing is being amortized over the term of the loans on a straight-line basis.

(iv) Other assets – The Company has entered into a loan and deposit agreement, denominated in U.S. and Canadian dollars respectively, to mitigate the impact of U.S. dollar volatility. Due to the Company's ability and intent to offset the U.S. dollar loan and the cash deposit, the Company records the net amount as other assets when the value of the cash deposit exceeds the value of the U.S. dollar loan.

f) Goodwill – The Company is required to evaluate goodwill annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Absent any triggering factors during the year, the Company conducts its goodwill assessment in the fourth quarter to correspond with its measurement planning cycle. Impairment is tested at the reporting unit level by comparing the reporting unit's carrying amount to its fair value. The fair values of the reporting units are estimated using a combination of a market approach and discounted cash flows. To the extent a reporting unit's carrying amount exceeds its fair value, an impairment of goodwill exists. Impairment is measured by comparing the fair value of goodwill, determined in a manner similar to a purchase price allocation,

Notes *(continued)*

to its carrying amount. During the fourth quarters of 2004 and 2003, the Company performed its annual goodwill impairment test. The fair values of the reporting units were estimated using a combination of a market approach and discounted cash flows. Revenue and expense projections used in determining the fair values of the reporting units were based on management's estimates, including estimates of current and future industry conditions. The Company determined there was no impairment for 2004 or 2003 as the reporting unit fair values exceeded carrying values.

g) **Revenue Recognition –** Revenue from the sale of manufactured products is recognized when measurable, upon shipment to or receipt by customers (depending on contractual terms).

Revenue and cost of sales are presented on a gross basis in the consolidated statements of earnings (loss) when the Company is acting as principal and is subject to the significant risks and rewards of the transaction. Where the Company receives consignment inventory for processing, the tolling charges are recorded as revenue. Volume rebates are usually established as a percentage of sales with a commitment to a base amount and are accrued on a systematic and rational basis estimating the level of expected amounts to be paid based on past experience and are reported as a reduction of gross revenue.

h) **Foreign Currency Translation –** The accounts of the Company's wholly owned subsidiaries have been translated using the temporal method, which translates monetary items at the rate of exchange in effect at the balance sheet date and non-monetary items at historical rates. Revenue and expense items are translated at the rate of exchange in effect on the dates they occur. Exchange gains and losses arising on translation of foreign currency are included in current operations.

i) **Income Taxes –** Future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Company's provision for current income taxes and the difference between opening and ending balances of future income tax assets and liabilities.

j) **Concentration of Credit Risk –** Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of trade accounts receivable. A majority of the Company's trade receivables are derived from sales to retailers, manufacturers and to original equipment manufacturers and distributors. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. The Company maintains reserves for potential credit losses, and any such losses to date have been within management's expectations.

k) **Use of Estimates –** The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Significant areas requiring the use of estimates relate to rates of amortization and valuation of capital assets and valuation of goodwill. Actual results could differ from those estimates.

l) **Fair Value of Financial Instruments –** The Company's financial instruments consist of accounts receivable, demand loan, accounts payable and accrued liabilities, term loan and other debt and accrued post retirement benefit liability. The Company determines fair value of its financial instruments based on quoted market values or discounted cash flow analyses. The recorded amounts of financial instruments in these consolidated financial statements approximate their fair values.

m) **Post Retirement Benefits –** The Company provides designated employees with defined post retirement benefits based upon their years of service. These benefits are accrued by the Company and remain unfunded unless certain events occur. The current provision for the benefit expense reflects an actuarially-determined amortization of past service costs over the remaining years of employment (5 years in 2004; 6 years in 2003) until the maximum entitlement is achieved, imputed interest on the unfunded balance, and a provision for current service. The accrued benefit liability as at December 31, 2004 and the benefit expense for the year ended December 31, 2004 were determined based on January 1, 2000 valuation of the plan and an extrapolation to December 31, 2004 for disclosure purposes.

The Company provides certain employees with post retirement life insurance benefits under a plan that is unfunded. The current provision for the benefit expense reflects actuarially-determined imputed interest on the unfunded balance, net of annual employer contributions, and a provision for current service. The Company uses the “Corridor Approach” to amortize actuarial gains or losses. The liability for the benefits will be accrued over the attribution period of twenty years.

n) Stock-based Compensation – Effective January 1, 2004, the Company adopted the amended recommendations of the CICA with respect to stock-based compensation and other stock-based payments. Under these recommendations, a fair value based method of accounting is required for all stock-based payments to non-employees and employees that are direct awards of stock appreciation rights. The Company has applied the new recommendations retroactively, without restatement of prior periods, for awards granted in the 2002 and 2003 fiscal years. As a result, the Company has recorded a charge to opening retained earnings and a corresponding adjustment to contributed surplus of $698 on January 1, 2004, for awards granted in 2002 and 2003.

The fair value of options issued in 2002 and 2003 was determined using the Black-Scholes option pricing model using the following weighted average assumptions:

Risk-free rate		**4.3%**
Dividend yield		**0%**
Volatility factor of the expected market price of the Company's shares		**54%**
Average expected option life (years)		**4.9**
Weighted-average grant date fair value per share of options granted during the year	**$**	**2.34**
Pro-forma net loss	**$**	**(4,810)**
Pro-forma basic and diluted loss per share	**$**	**(0.21)**

In 2004 the Company issued 790,000 stock options to certain employees. The fair value of options issued has been determined using the Black-Scholes option pricing model using the following assumptions:

Risk-free rate		**3.8%**
Dividend yield		**0%**
Volatility factor of the expected market price of the Company's shares		**71%**
Average expected option life (years)		**5.3**
Weighted-average grant date fair value per share of options granted during the year	**$**	**1.40**

The stock options issued in 2004 vest as follows:

	Number of Options
August 16, 2005	**118,500**
August 16, 2006	**118,500**
August 16, 2007	**158,000**
August 16, 2008	**197,500**
August 16, 2009	**197,500**
	790,000

The Company recorded stock-based compensation of $165 relating to the option grants, which is included in general and administrative expenses in the statement of operations.

NOTE 2 – DISCONTINUED OPERATIONS

Commercial Footwear – During 2004, the Company adopted a formal plan to discontinue the manufacture of commercial footwear and to focus its footwear resources on the manufacture and sale of specialized products for emergency response and military markets as the production of commercial footwear had become increasingly uncompetitive with foreign-sourced imports. The Company concluded an agreement to permit a third party to manufacture commercial footwear under the "Acton" brand-name. The Company agreed to continue to produce selected items until February 2005 to assist in the transition. The financial statements have been reclassified to segregate the results of the commercial footwear activities from continuing operations. The discontinued operations were previously reflected in the "Acton & Other" segment of the segmented results (Note 14).

A summary statement of operations for the commercial footwear operations is as follows:

Year ended December 31:		**2004**		2003
Net sales	**$**	**12,444**	$	14,223
Gross Margin		**801**		(491)
Operating expenses		**2,950**		4,845
Loss before tax		**(2,149)**		(5,336)
Net loss	**$**	**(1,476)**	$	(3,664)
Amortization	**$**	**222**	$	3,146

Notes *(continued)*

Assets and liabilities held in discontinued operations:

December 31:		2004		2003
Accounts receivable	$	1,494	$	3,091
Inventory		1,011		3,615
Current assets		2,505		6,706
Accounts payable		488		989
Capital assets	$	–	$	300

The Company's assets and liabilities related to the commercial footwear activities will be liquidated in the normal course of business. Accounts receivable will be collected according to standard credit practices of the commercial footwear industry. Inventories will be liquidated in the normal course of business and any remaining finished goods will be sold by August 2005 under the terms of a purchase agreement. Accounts payable will be settled under the regular credit terms afforded to the Company by its suppliers.

Tire Manufacturing and Distribution – During the quarter ended December 31, 2004, the Company adopted a formal plan to discontinue the manufacture of solid and segmented tires and to offer the business for sale. This segment of the tire market had become increasingly uncompetitive due to the performance and cost improvements made to pneumatic tires, with which this business competed. During the first quarter of 2005, the Company received expressions of interest in the business and expects to conclude binding agreements of sale by March 31, 2005. The financial statements have been reclassified to segregate the results of the tire production unit located in Kitchener, Ontario and the sales, marketing and distribution subsidiary, AirBoss Polymer Products Inc., from continuing operations. The discontinued operations were previously reflected in the "Acton & Other" and the "Railway and Distribution" segments of the segmented results (Note 14).

A summary statement of operations for the Tire Manufacturing and Distribution operations is as follows:

Year ended December 31:		2004		2003
Net sales	$	2,969	$	2,620
Gross Margin		72		(155)
Operating expenses		2,588		1,155
Loss before tax		(2,516)		(1,309)
Net loss	$	(1,992)	$	(1,391)
Amortization	$	1,617	$	194

Assets and liabilities held in discontinued operations:

December 31:		2004		2003
Accounts receivable	$	388	$	533
Inventory		994		1,817
Prepaid expenses		31		80
Current assets		1,412		2,430
Accounts payable		152		318
Other assets		–		89
Capital assets	$	226	$	1,730

The Company's assets and liabilities related to the Tire business will be liquidated in the normal course of business under the terms of a business sales agreement. Accounts receivable will be collected according to standard credit practices of the industry. Inventories will be liquidated in the normal course of business under the terms of a business sales agreement. Accounts payable will be settled under the regular credit terms afforded the Company by its suppliers.

NOTE 3 – JOINT VENTURES

The Company operates under a 50-50 joint venture agreement for the manufacture of railway fastening clips for which AirBoss Railway Products, Inc. is the exclusive vendor. Joint ventures are consolidated on a proportionate basis.

Company's share of joint ventures:	2004	2003
Revenues	$ 2,636	$ 2,535
Expenses	412	370
Net income (loss)	(123)	(352)
Current and long-term assets	954	1,208
Current and long-term liabilities	83	205
Advance from AirBoss of America Corp.	950	950
Cash flow from – operations	65	(251)
– investing activities	–	(3)
– financing activities	–	(250)

NOTE 4 – INVENTORIES

Inventories are comprised of the following:

	2004	2003
Raw Materials	$ 19,102	$ 12,238
Work-in-progress	2,065	1,802
Finished goods	7,062	4,814
	$ 28,228	$ 18,854

NOTE 5 – CAPITAL ASSETS

December 31, 2004	Cost	Accumulated Amortization	Net
Land	$ 2,500	$ –	$ 2,500
Buildings	9,483	2,282	7,201
Equipment	61,014	24,875	36,139
	$ 72,997	$ 27,157	$ 45,840

December 31, 2003	Cost	Accumulated Amortization	Net
Land	$ 2,500	$ –	$ 2,500
Buildings	9,393	1,918	7,475
Equipment	58,362	19,921	38,441
	$ 70,255	$ 21,839	$ 48,416

Amortization expense for continuing operations for the years ended December 31, 2004 and 2003 was $5,201 and $4,264, respectively.

NOTE 6 – OTHER ASSETS

Other assets are comprised of the following:

	2004	2003
Product development	$ 3,142	$ 3,061
Patents	173	158
Deferred financing	501	501
Other assets	1,473	765
	5,289	4,485
Accumulated amortization	2,882	1,452
	$ 2,407	$ 3,033
Amortization expense	$ 1,448	$ 983

Notes *(continued)*

The Company maintains a loan and deposit agreement, denominated in U.S. and Canadian dollars respectively, to mitigate the impact of U.S. dollar volatility. The agreement provides for a U.S. $7,500 loan secured by a CDN $10,350 cash deposit derived from the loan proceeds. The term of the agreement extends to October 15, 2006. Included within the loan and deposit agreement, the Company has the right to offset the loan liability with the proceeds of the deposit. Both the loan and cash deposit bear and earn interest of 2.73% per annum respectively, payable or receivable net semi-annually. As a result of the Company's ability to offset the U.S. dollar loan and the cash deposit, the Company has recorded the current Canadian dollar equivalent of the U.S. dollar loan and the cash deposit, amounting to $1,335 at December 31, 2004 (2003 - $626) in other assets.

NOTE 7 – LOAN FACILITIES

a) **Operating Line of Credit –** The Company has an operating line of credit available up to $27,000 (2003 - $27,000). The operating line of credit bears interest at the Bank's prime rate plus 0% to 0.5% (2003 - 0.5% to 0.875%) per annum, with respect to loans denominated in Canadian currency and at the Bank's U.S. prime rate plus 0% to 0.5% per annum, with respect to loans denominated in U.S. currency. The fee charged for bankers' acceptances is Bank's Stamping Fee plus 1.25% to 2.0% (2003 - 1.0% to 1.5%).The indebtedness to the Bank is secured by a general security agreement entered into by the Company and by its subsidiaries, which is supported by accounts receivable and inventories and by collateral mortgages subordinated to the term lender.

b) **Term Loan –** The Company has commercial term loan facilities available up to $20,500 (2003 - $23,500) negotiated in 2001. The term loan is secured by a general security agreement entered into by the Company and by its subsidiaries supported by collateral mortgages. The term loan bears fixed interest of 7.89%, calculated monthly, and is repayable in monthly principal instalments of $250 plus interest with the balance of $15,000 repayable on October 15, 2006.

Future term debt payments over each of the next five years, as calculated under the original agreement, are as follows:

2005	$	3,000
2006		17,500
	$	**20,500**

NOTE 8 – OTHER DEBT

		2004		2003
Promissory notes – Acton International Inc.	**$**	**1,096**	$	1,096
Discounted liability		**–**		46
		1,096		1,142

Other debt includes two promissory notes taken back by the vendors of Acton International Inc. The notes bore interest at the rate of 8% per annum, are secured by a collateral mortgage of $3,589 on the assets of Acton International Inc., and rank second to the Bank and term lender. The terms of the purchase agreement provided for a recovery of purchase price under certain conditions. During 2002, the Company exercised its right of offset against the vendors' notes for the recovery of purchase price in the amount of $1,861. The Company has suspended payments of principal and interest pending resolution of its claims. The balance was repayable on April 20, 2004.

Other debt includes a discounted liability of $0 (2003 - $46). The discounted liability bore interest at 8% per annum and was payable initially in 36 monthly instalments of $26 and, subsequently, in 24 monthly instalments of $13. Payments commenced May 22, 1999 and terminated April 20, 2004.

NOTE 9 – SHARE CAPITAL AND CONTRIBUTED SURPLUS

a) **Share Capital: Authorized –** Unlimited number of common shares.
Unlimited number of Class B preference shares without par value and issuable in series subject to the filing of articles of amendment. The directors may fix, from time to time before such issue, the number of shares that is to comprise each series and the designations, rights, privileges, restrictions, and conditions attaching to each series.

Issued share capital is as follows:

	Common Shares	
	Amount (in thousands)	**Number of Common Shares**
Balance, December 31, 2002	$ 38,393	22,526,923
Exercise of stock options – 2003	12	10,000
Balance, December 31, 2003	$ 38,405	22,536,923
Exercise of stock options – 2004	226	87,000
Balance, December 31, 2004	$ 38,631	22,623,923

b) Contributed Surplus – Contributed surplus is comprised of the difference between the book value per share and the purchase price paid for shares acquired for cancellation by the Company under a Normal Course Issuer Bid and stock-based compensation of employees and non-employees. As at December 31, 2004, contributed surplus is comprised of the following:

Balance, December 31, 2003 and 2002	$ 143
Retroactive application of stock option awards in 2003 and 2002	698
Stock option expense	165
Stock options exercised	(70)
Balance, December 31, 2004	**$ 936**

c) Stock Options – The Company has reserved 2,401,800 shares for its stock option plan. Options vest when granted or over a period of up to five years. The plan provides for the following options, granted to directors and officers of the Company, which were outstanding at December 31, 2004 with a weighted average exercise price of $1.85.

Number of Options	**Exercise Price**	**Expiry Date**
50,000	$ 2.05	August 12, 2005
874,000	$ 1.12	March 14, 2006
105,000	$ 1.83	April 5, 2007
50,000	$ 1.85	May 14, 2007
400,000	$ 2.59	March 19, 2008
50,000	$ 2.30	April 16, 2008
790,000	$ 2.25	November 16, 2009
2,319,000	**$ 1.85**	

		2004		2003
Options	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Price Exercise**
Outstanding at beginning of year	**2,101,000**	**$ 2.30**	1,798,500	$ 2.29
Granted	**790,000**	**2.25**	500,000	2.53
Exercised	**(87,000)**	**1.79**	(10,000)	1.12
Expired	**(485,000)**	**4.43**	(187,500)	2.93
Outstanding and exercisable at end of year	**2,319,000**	**$ 1.85**	2,101,000	$ 2.30

Notes *(continued)*

NOTE 10 – EARNINGS (LOSS) PER SHARE

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

	2004	2003
Numerator for basic and diluted earnings (loss) per share:		
– Continuing operations	$ 5,200	$ 745
– Net income (loss)	$ 1,732	$ (4,310)
Denominator for basic and diluted earnings (loss) per share:		
Basic weighted average number of shares outstanding	22,547	22,533
Effect of stock options	501	548
Diluted weighted average number of shares outstanding	23,048	23,081
Basic earnings (loss) per share		
– Continuing operations	$ 0.23	$ 0.03
– Net income (loss)	$ 0.08	$ (0.19)
Diluted earnings (loss) per share		
– Continuing operations	$ 0.23	$ 0.03
– Net income (loss)	$ 0.08	$ (0.19)

NOTE 11 – INCOME TAXES

The provision for income taxes differs from the amount computed by applying the Canadian statutory income tax rate to income before income taxes for the following reasons:

	2004	2003
Combined federal and provincial statutory income tax	$ 940	$ (1,750)
Change in the valuation allowance for future income tax assets	55	365
Prior year tax recoveries not previously recorded	–	(261)
Adjustments to future income tax assets and liabilities for changes in substantively enacted tax rates	–	246
Income tax related to non-deductible expenses	102	–
Federal large corporations tax	91	196
Foreign tax differential	(50)	51
Other	77	(48)
Total expense (recovery)	$ 1,215	$ (1,201)

The components of the provision for income taxes are as follows:

	2004	2003
Current	$ 1,125	$ (603)
Future	90	(598)
	$ 1,215	$ (1,201)

The provision for income taxes is allocated to discontinued and continuing operations as follows:

	2004	2003
Income Tax Expense/(Recovery) Allocated to Continuing Operations	2,412	389
Income Tax Expense/(Recovery) Allocated to Discontinued Operations	$ (1,197)	$ (1,590)
Total Income Tax Expense/(Recovery)	$ 1,215	$ (1,201)

The income tax effects of temporary differences that give rise to significant portions of future income tax assets and liabilities are as follows:

	2004	2003
Future income tax assets:		
Non-capital income tax loss carry-forwards	**$ 425**	$ 507
Alternative minimum tax recoverable	**365**	365
Research and development expenses deducted for accounting purposes in excess of tax purposes	**139**	621
Future income tax deductions relating to long-term liabilities	**366**	284
	1,295	1,777
Less valuation allowance	**(430)**	(375)
	865	1,402
Future income tax liabilities		
Capital assets	**(10,645)**	(11,092)
Net future income tax liability	**$ (9,780)**	$ (9,690)

In assessing the valuation of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the period in which the temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the character of the income tax asset, and the tax planning strategies in making this assessment. To the extent that management believes that the realization of future income tax assets do not meet the more likely than not realization criterion, a valuation allowance is recorded against the future income tax assets.

The Company has losses of $856 available to offset future income taxes in the U.S. with no expiry.

NOTE 12 – COMMITMENTS AND RELATED PARTY TRANSACTIONS

a) Commitments – The Company is committed under non-cancellable operating lease agreements to minimum rentals for premises as follows:

2005	$ 275
2006	195
2007	149
2008	145
2009	127
Thereafter	240
	$ 1,131

The Company has commitments to purchase raw materials in the normal course of business amounting to $1.4 million in 2005.

b) 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 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 per annum approximates fair market rental value at the inception of the lease in 2002.

Notes *(continued)*

NOTE 13 – POST RETIREMENT BENEFITS

The Company provides certain employees with post retirement benefits (Note 1(m)).

	Pension benefit plan		Other benefit plan	
	2004	2003	**2004**	2003
Accrued benefit obligation:				
Balance, beginning of year	**$ 1,020**	$ 887	**$ 455**	$ 447
Current service cost	**76**	71	**7**	7
Interest cost	**71**	62	**29**	28
Benefits paid	**–**	–	**(26)**	(27)
Actuarial losses	**149**	–	**102**	–
Balance, end of year	**1,316**	1,020	**567**	455
Unamortized net actuarial loss	**416**	322	**–**	–
Unamortized transitional obligation	**–**	–	**396**	319
Accrued benefit liability	**$ 900**	$ 698	**$ 171**	$ 136

The significant assumptions used are as follows (weighted-average):

	Pension benefit plan		Other benefit plan	
	2004	2003	**2004**	2003
Accrued benefit obligation:				
Discount rate	**5.75%**	6.50%	**6.50%**	6.50%
Rate of compensation increase	**–**	–	**–**	–
Benefit costs for the years:				
Discount rate	**5.75%**	6.50%	**6.50%**	6.50%
Rate of compensation increase	**–**	–	**–**	–

The elements of the Company's defined benefit plan costs recognized in the year are as follows:

	Pension benefit plan		Other benefit plan	
	2004	2003	**2004**	2003
Current service cost, net of employees' contributions	**$ 76**	$ 71	**$ 7**	$ 7
Interest Cost	**71**	62	**29**	28
Elements of employee future benefits costs before adjustments	**147**	133	**36**	35
Adjustments to recognize the long-term nature of employee future benefit cost:				
Difference between recognized actuarial (gains) losses on the accrued benefit obligation for the year	**55**	55	**–**	–
Amortization of the transitional obligation	**–**	–	**25**	25
Recognized defined benefit costs	**$ 202**	$ 188	**$ 61**	$ 60

NOTE 14 – SEGMENTED INFORMATION

The Company is comprised of three 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 Railway and Distribution segment designs and distributes railway fastening products and specialty tires. The specialty tire business has been offered for sale (Note 2). The Acton and Other segment produces rubber protective products, including footwear and gloves, and further processed rubber compounds. The commercial footwear operations and the tire moulding operations were discontinued (Note 2).

Intercompany amounts, which represent items purchased from different segments, have been presented gross 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 earnings from operations.

	Sales excluding Inter-Company				Inter-
2004	**Canada**	**USA**	**Other**	**Total**	**Company**
Rubber compounding operations	$ 47,173	$ 81,567	$ 421	$ 129,161	$ 7,896
Engineered products					
Railway Products	–	18,304	–	18,304	13
Acton and other	8,248	32,699	4,183	45,130	7,071
	$ 55,421	**$132,570**	**$ 4,604**	**$192,595**	**$ 14,980**

	Rubber	Engineered Products		Corporate &	
2004	**Compounding Operations**	**Railway Products**	**Acton & Other**	**Inter-Company Eliminations**	**Total**
Sales	$ 137,056	$ 18,318	$ 52,201	$ (14,980)	$ 192,595
Cost of sales	122,975	15,800	41,244	(14,980)	165,039
	14,081	2,518	10,957	–	27,556
Operating expenses	9,509	2,514	5,987	1,934	19,944
Income (loss) before income taxes	4,572	4	4,970	(1,934)	7,612
Provision for income taxes					(2,412)
Net Income					$ 5,200
Assets employed – Canada	$ 73,219	$ –	$ 39,885	$ 993	$ 114,097
– USA	–	3,924	–	–	3,924
– Total	$ 73,219	$ 3,924	$ 39,885	$ 993	$ 118,021
Purchase of capital assets	$ 2,429	$ 141	$ 715	$ 7	$ 3,292
Amortization – Capital and other assets	2,249	842	3,113	445	6,649

Notes *(continued)*

2003	Sales excluding Inter-Company Canada	USA	Other	Total	Inter-Company
Rubber compounding operations	$ 43,830	$ 49,937	$ 192	$ 93,959	$ 7,714
Engineered products					
Railway Products	–	21,544	–	21,545	14
Acton and other	12,541	28,791	2,191	43,523	5,592
	$ 56,371	$ 100,272	$ 2,383	$ 159,027	$ 13,320

2003	Rubber Compounding Operations	Engineered Products Railway Products	Acton & Other	Corporate & Inter-Company Eliminations	Total
Sales	$ 101,674	$ 21,557	$ 49,116	$ (13,320)	$ 159,027
Cost of sales	93,111	17,120	43,192	(13,200)	140,103
	8,563	4,437	5,924	–	18,924
Operating expenses	6,980	3,210	5,830	1,770	17,790
Income (loss) before income taxes	1,583	1,227	94	(1,770)	1,134
Provision for income taxes					(389)
Net income					$ 745
Assets employed – Canada	$ 62,793	$ –	$ 38,684	$ 360	$ 101,837
– USA	–	6,168	–	–	6,168
– Total	$ 62,793	$ 6,168	$ 38,684	$ 360	$ 108,005
Purchase of capital assets	$ 2,096	$ 53	$ 1,812	$ 26	$ 3,987
Amortization – Capital and other assets	1,922	389	2,621	315	5,247

One customer represented 29% and 18% of total sales in 2004 and 2003 respectively. Five customers represented 52% and 46% of sales in 2004 and 2003 respectively.

NOTE 15 – CONTINGENCIES

a) Legal – During 2001, a plaintiff against the Company, alleging patent infringement, was awarded damages upon appeal of a summary dismissal of his suit. The Company successfully appealed the judgement and the case was remanded for trial. During 2003, the plaintiff was again awarded damages U.S. $3,273, and the case has been appealed again. On the advice of the Company's attorney, the Company deferred recognition of the award. While it is not possible to estimate the outcome, management believes that the resolution will not have a material adverse effect on the consolidated financial position of the Company.

b) Environmental – Under the terms of the term financing facility (Note 7(b)), the Company has posted a letter of credit of $500, in favour of the lender, as security for the completion of certain remediation and environmental certification projects, which the Company believes were substantially completed without any material impact to the operations or financial position of the Company.

NOTE 16 – COMPARITIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's financial statement presentation.

Corporate Information

BOARD OF DIRECTORS

David A. Campbell
President, Acorn Equipment Rental Inc.
Bracebridge, Ontario

Sandra Cowan (1)(2)(3)
Partner, Edgestone Capital Partners
Toronto, Ontario

Rick Crowe (1)(2)(3)
Chairman, J.R. Senecal
Richmond Hill, Ontario

Robert L. Hagerman
President and CEO, AirBoss of America Corp.
Aurora, Ontario

Robert L. McLeish (1)(2)(3)
Toronto, Ontario

Brian A. Robbins (1)
President and Chief Executive Officer,
Exco Technologies Limited

P. Grenville Schoch (2)
Chairman, AirBoss of America Corp.
Aurora, Ontario

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of Corporate Governance Committee

SOLICITORS

Goodman and Carr
Toronto, Ontario

AUDITORS

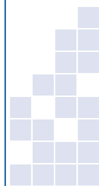
KPMG LLP
Toronto, Ontario

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services, Inc.
Toronto, Ontario

Stock Symbol Toronto Stock Exchange: **BOS**
Web Site address: **www.airbossofamerica.com**
Email address: **info@airbossofamerica.com**

Our Annual Meeting is **Wednesday, May 4, 2005** at **4:30 pm** at the AirBoss corporate offices, Newmarket, Ontario.



AIRBOSS OF AMERICA CORP.

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President and Chief Executive Officer: R.L. (Bob) Hagerman
Chief Operating Officer: A. Kim Aagaard
Vice-President Finance and CFO: Stephen W. Richards
Vice-President Corporate: Axel G. Breuer
Investor Relations: Tracey L. Gauley

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Vice-President Sales and Marketing: John Tomins

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