AIRBOSS OF AMERICA
CORP.

2005 FIRST QUARTER INTERIM 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.

CONTENTS

FOR THE THREE MONTHS ENDED MARCH 31

(thousands $ CAD, except per share amounts)		2005		2004
Net sales	**$**	**59,568**	$	44,055
Gross margin		**7,292**		6,281
Earnings before interest, taxes & amortization (EBITDA) (Note 1)		**4,324**		3,879
Interest expense		**801**		698
Net income from continuing operations		**1,558**		1,272
Net (loss) from discontinued operations		**(38)**		(681)
Net income		**1,520**		591
Net income per share, from continuing operations				
– Basic	**$**	**0.07**	$	0.06
– Diluted		**0.07**		0.06
Net income per share				
– Basic	**$**	**0.07**	$	0.03
– Diluted		**0.06**		0.03
Cash flow before changes in non-cash working capital	**$**	**3,317**	$	3,093
Common shares outstanding (millions)				
– Basic		**22.7**		22.5
– Diluted		**23.8**		23.0

Note 1 – The Company discloses EBITDA, a financial measurement used by interested parties. EBITDA does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures presented by other issuers. EBITDA is not a measure of performance under GAAP and should not be considered in isolation or as a substitute for net income under GAAP.

		For the three months ended March 31		
(thousands)		2005		2004
Income from continuing operations before income taxes	**$**	**2,266**	$	1,796
Interest expense		**801**		698
Amortization from continuing operations		**1,257**		1,385
EBITDA – continuing operations	**$**	**4,324**	$	3,879

Letter to Shareholders

Sales for the three-month period ended March 31, 2005 increased by 35% compared to the same period in 2004, while income from continuing operations increased by 22%. Volume improvement was primarily due to increased sales of rubber compounds but most of the improvement in profits resulted from improved performance in the Military and Industrial products within our AirBoss Engineered Products group.

AIRBOSS RUBBER COMPOUNDING

Sales volumes for the three months ended March 31,2005 increased by 19% to just under 45 million pounds, compared to last year, while sales dollars increased by 42% to approximately $40 million. The greater dollar change is reflective of price increases required to pass along raw material cost increases which continue to impact the industry. Synthetic rubber continues to be the major challenge in this regard.

Demand from key industry sectors, such as energy and transportation, serviced by AirBoss continues to be strong and this should keep volumes at these levels until additional permanent capacity is brought online. Most of the increased volume has come from US based customers and the US based capacity should reduce both delivery costs and currency exposure.

While we were successful in passing along material price increases, margins were further compressed by higher energy and freight costs. There were also significant start-up cost overruns and other costs associated with the production facility in Waynesville, North Carolina. The new facility, located in Scotland Neck, North Carolina, is scheduled for start-up late in the year and will initially provide 50 million pounds of capacity utilizing the latest in mixing technology.

AIRBOSS ENGINEERED PRODUCTS

Sales in this product group increased by 32% in the quarter compared to the previous year. This increased volume plus a favourable shift in product sales mix accounted for most of the increased profitability of AirBoss in the first quarter compared to 2004.

AirBoss-Defense – The defense product group benefited in the first quarter from increased sales of both its CBRN ("Chemical Nuclear Radiological Nuclear ") products and ECW ("Extreme Cold Weather") products. Sales for the year are expected to increase by approximately 20%. Of the total expected sales, over 70% are now represented by firm orders.

Product developments include both production and quality improvements such as new processes to refine compounds to eliminate defects caused by any imperfections in the rubber.

Industrial Products – While sales showed a healthy increase in the quarter compared to the prior year, the largest area of improvement was in production where scrap, downtime and machine utilization, all showed significant improvement. Credit for these positive changes goes to plant management and the elimination of commercial footwear operations.

AIRBOSS RAILWAY PRODUCTS

Sales increased by 9% compared to the first quarter in 2004 due to increased volumes in special construction projects and products such as cast tie plates. This is a strong performance by this group following a difficult finish to 2004 due to high steel prices and the strong Canadian dollar impacting the profitability of the key steel fastening clip products.

AirBoss is currently working on its first products designed specifically for foreign markets although any significant impact is not likely before next year.

The Company is waiting for a ruling by the U.S. Court of Appeal concerning the patent lawsuit.

OUTLOOK

The Company anticipates that volumes will continue at the current levels in the compounding and industrial rubber product sectors. Commodity prices continue to impact the industry, affecting material, delivery and facility costs. The challenge will be to manage these factors along with the elimination of any further startup impact in North Carolina.

We continue to be optimistic for continued improvement during the remainder of 2005 and look forward to the increased capacity scheduled to be onstream by year-end that will allow for substantial additional growth over the next several years.

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 ("MD&A") of the financial position of AirBoss of America Corp. (the "Company") and results of operations for the three month period ended March 31, 2005 prepared as of April 28, 2005, should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto, as well as the MD&A and audited consolidated financial statements for the year ended December 31, 2004 contained in the 2004 Annual Report to Shareholders. The consolidated interim financial statements have not been audited or reviewed on behalf of shareholders by the Company's independent external auditors. All dollar amounts are shown in thousands of Canadian dollars unless otherwise specified. Additional information relating to the Company, including the Company's Annual Information Form, can be obtained from SEDAR at www.sedar.com and at the Company's website at www.airbossofamerica.com.

AirBoss Forward-Looking Statement Disclaimer – *The information in this Management's Discussion and Analysis contains certain forward-looking statements which reflect the Company's current view of future events, business outlook and anticipated financial performance. Such statements are subject to assumptions, which may be incorrect, and to risks and uncertainties which are difficult to predict. As a result, actual results could be materially different and readers are cautioned not to place undue reliance on such information.*

Risks that could cause actual results to materially differ from current expectations may include, but are not limited to, those described in the "Risk factors" section of the MD&A in the 2004 Annual Report to Shareholders.

SIGNIFICANT EVENTS

Bank Financing – During the quarter, the Company secured an additional term loan facility for US $6.0 million maturing October 16, 2006, amortized over a ten year period following the final advance, to finance capital requirements for its U.S. expansion. In addition, on April 28, 2005, the Company completed negotiations for a new $45.0 million operating line facility to finance growth requirements.

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

SELECTED FINANCIAL INFORMATION

(thousands, except per share amounts)

First Quarter ended March 31	**2005**	2004
Net sales	**$ 59,568**	$ 44,055
Net income	**1,520**	591
Net earnings per share – continuing operations		
– Basic	**0.07**	0.06
– Diluted	**0.07**	0.06
Cash flow before changes in non-cash working capital	**3,317**	3,093
Total assets	**133,255**	124,896
Demand loan	**17,069**	15,694
Current portion of term loan and other debt	**4,096**	4,096
Long-term portion of term loan and other debt	**18,330**	19,761
Cash dividends declared	**–**	–

QUARTERLY INFORMATION

(thousands, except per share amounts)

	Net Sales Continuing	Net Income (Loss)		Net Income Per Share – Continuing Operations		Net Income (Loss) Per Share	
Quarter Ended	Operations	Continuing	Total	Basic	Diluted	Basic	Diluted
Mar. 31, 2005	$ 59,568	$ 1,558	$ 1,520	$ 0.07	$ 0.07	$ 0.07	$ 0.06
Dec. 31, 2004	49,259	834	(759)	0.04	0.04	(0.03)	(0.03)
Sept. 30, 2004	49,038	1,478	927	0.07	0.06	0.04	0.04
June 30, 2004	50,243	1,289	973	0.06	0.06	0.04	0.04

(thousands, except per share amounts)

	Net Sales Continuing	Net Income (Loss)		Net Income (Loss) Per Share – Continuing Operations		Net Income (Loss) Per Share	
Quarter Ended	Operations	Continuing	Total	Basic	Diluted	Basic	Diluted
Mar. 31, 2004	$ 44,055	$ 1,272	$ 591	$ 0.06	$ 0.06	$ 0.03	$ 0.03
Dec. 31, 2003	30,346	(2,317)	(5,723)	(0.10)	(0.10)	(0.25)	(0.25)
Sept. 30, 2003	38,756	427	133	0.02	0.02	0.01	0.00
June 30, 2003	42,169	1,282	608	0.06	0.06	0.03	0.03

RESULTS OF OPERATIONS

Three month period ended March 31, 2005 compared to the same period in 2004.

SALES FROM CONTINUING OPERATIONS

Sales revenue for the first quarter ended March 31, 2005 of $59.6 million increased by $15.5 million or 35% in 2005 compared with 2004. Net sales in the quarter to non-Canadian customers represented 66.7% (2004 - 78.9%) of net sales.

(thousands)	Rubber Compounding Operations	Engineered Products: Railway Products	Engineered Products: AEP & Other	Total
Net Sales – 2005	**$ 40,151**	**$ 6,746**	**$ 12,671**	**$ 59,568**
– 2004	28,275	6,200	9,580	44,055
Increase (decrease)	$ 11,876	$ 546	$ 3,091	$ 15,513
Increase (decrease)	42%	9%	32%	35%

Rubber Compounding – Net sales for the quarter ended March 31, 2005 increased by $11.9 million or 42% to $40.2 million, compared to the first quarter in 2004. Volumes, which increased 18.8% attributable to the belting and re-treading sectors, account for approximately $6.9 million of the sales growth. The balance of the revenue growth was attributed to rising commodity prices converted to higher product prices. Revenue was also negatively impacted by $2.4 million from exchange rate changes. The new facility, in Waynesville, N.C., began production at the beginning of the quarter and will provide additional capacity to support the higher level of demand.

Railway Products – Net sales for the quarter increased 9% primarily due to higher volumes. Since customers are predominantly U.S. based, revenues were adversely affected by $0.5 million on translation and consolidation due to an exchange rate change.

AirBoss Engineered Products and Other – Net sales increased $3.1 million or 32% for the quarter. The increase is due to $2.4 million higher military sales and $0.7 million higher industrial sales.

GROSS MARGINS

Gross margins for the three month period ended March 31, 2005 increased by $1.0 million from $6.3 million to $7.3 million representing a 16.1% increase. Although net sales increased by 35%, competitive pricing pressures, rising commodity prices, general cost increases, and higher costs associated with the U.S. expansion reduced gross margin percentages.

(thousands)	Rubber Compounding Operations	Engineered Products: Railway Products	Engineered Products: AEP & Other	Total
Gross Margins – 2005	**$ 3,226**	**$ 1,170**	**$ 2,896**	**$ 7,292**
– 2004	3,117	1,212	1,952	6,281
Increase (decrease)	$ 109	$ (42)	$ 944	$ 1,011
% of net sales – 2005	**8.0%**	**17.3%**	**22.8%**	**12.2%**
– 2004	11.0%	19.5%	20.3%	14.2%

Rubber Compounding – Although the company has largely been able to maintain the 'spread' between revenue and material costs, it has not been able to pass on additional amounts to cover increased costs associated with higher working capital requirements due to higher commodity prices for natural and synthetic rubber, as well as other materials. Demand continues to exceed supply, particularly in the “winter” season when natural rubber production is reduced, thereby placing upward pressure on the commodity prices. The division has made significant strides in increasing sources of supply, by seeking out new markets. The Company has been buying certain materials, such as synthetic rubber and carbon black, forward in anticipation of cost increases.

While revenues were negatively affected by exchange rate changes, material costs benefited, resulting in a net impact on gross margin of $0.5 million in the quarter.

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

While total conversion costs have declined as a percentage of sales, unit costs have actually increased on a per pound basis, partly due to the Waynesville facility running well below capacity during the start-up phase. Gross margin in the division still remains below traditional levels, due to the competitiveness of the marketplace and the difficulty the industry has had in absorbing a sequence of higher commodity prices.

Railway Products – Gross margin decreased marginally to $1.2 million or 17.3% of net sales for the quarter as a net result of an unfavorable $0.1 million exchange rate cost on consolidation, partly offset by higher volumes.

AirBoss Engineered Products and Other – Increased sales volume and favourable product sales mix of military products contributed $0.7 million of the $0.9 million additional gross margin in the quarter. Industrial product sales accounted for the balance of the increase. A higher margin product mix increased overall margins in this segment to 22.8% from 20.3%.

OPERATING EXPENSES

Operating expenses for the quarter increased by $0.5 million from $4.5 million to $5.0 million during the first quarter ended March 31, 2005 compared to the same quarter in 2004. The operating expenses reflect higher interest costs from increased borrowing levels and foreign exchange losses.

(thousands)	Rubber Compounding Operations	Engineered Products		Corporate & Intercompany Eliminations	Total
		Railway Products	AEP & Other		
Operating expenses[(1)] – 2005	**$ 2,414**	**$ 517**	**$ 1,444**	**$ 651**	**$ 5,026**
– 2004	2,116	325	1,444	600	4,485
Increase (decrease)	$ 298	$ 192	$ –	$ 51	$ 541

(1) Operating expenses include selling, general and administrative expenses, interest expenses on demand loan and long-term debt, and other income and expenses.

Rubber Compounding – Operating expenses were $2.4 million or 6.0% of sales in the quarter as compared to $2.1 million or 7.5% of sales in the first quarter of 2004. The increase of $0.3 million was mostly due to general cost increases ($0.2 million), expansion start-up costs and interest ($0.1 million).

Railway Products – Operating expenses were $0.5 million or 7.7% of sales in the quarter as compared to $0.3 million or 5.2% of sales in the first quarter of 2004. The increase of $0.2 million arose from lower foreign exchange gains ($0.3 million), and partially offset by lower general and administrative expenses ($0.1 million).

AirBoss Engineered Products – Operating expenses remained unchanged at $1.4 million or 11.4% of sales in the quarter as compared to 15.1% of sales in the first quarter of 2004.

Corporate and other eliminations – Operating expenses were $0.7 million in the quarter as compared to $0.6 million in the first quarter of 2004, primarily attributable to a foreign exchange loss.

INCOME TAX EXPENSE

The Company recorded an income tax provision for the quarter of $0.7 million or 31.2% of income from continuing operations before income taxes, compared to $0.5 million or 29.2% in the first quarter of 2004. The change in the income tax rate related primarily to a change in mix of income in the various tax jurisdictions.

NET LOSS FROM DISCONTINUED OPERATIONS

Net sales and gross profit for the quarter decreased by $2.5 million and $0.6 million, respectively, compared to 2004, primarily as a result of the Company winding down its commercial footwear operation. Production ceased in February, 2005 as anticipated. The Company expects to sell the remaining $0.5 million of consignment inventory by August, 2005.

NET INCOME AND EARNINGS PER SHARE

Net income increased in the first quarter of 2005 by $0.9 million or 157% to $1.5 million from $0.6 million in the first quarter of 2004. Basic and diluted earnings per share were $0.07 from continuing operations and in total as compared to $0.06 from continuing operations and $0.03 in total in 2004. The basic weighted average number of shares outstanding in the quarter increased by 944 to 22,624,867 (compared to 22,536,923 in 2004) as a result of employees exercising their options at the end of the quarter, leaving 2,284,000 options outstanding. The fully diluted weighted average number of shares outstanding increased in the quarter by 1,215,837 to 23,924,760 as compared to 23,011,568 in the same quarter of 2004, mainly due to more options being 'in the money'.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from continuing operations – AirBoss generated $3.3 million in operating cash flows before changes in non-cash working capital balances during the first quarter ended March 31, 2005 compared to $3.1 million in 2004. The increase is mainly due to higher net income.

Non-cash working capital – The investment in non cash working capital relating to continuing operations was $38.8 million at March 31, 2005 compared to $26.6 million at the end of the first quarter of 2004.

The working capital requirements increased in the first quarter of 2005 compared to 2004 due to:

- An increase in accounts receivable of $5.0 million reflecting higher volumes and slower collections
- An increase in inventory of $13.9 million reflecting higher commodity prices, over-seas purchases of raw materials, with terms of “freight-on-board, shipping point” and expansion start-up inventories
- Higher insurance premiums and deferred financing charges contributed to a $0.4 million increase in prepaid expenses
- An increase in accounts payable of $6.0 million occurred to support increased inventories
- A $1.2 million increase in income taxes payable due to the timing and level of instalments paid compared to the actual expense incurred

The effective income tax rate for the three months ended March 31, 2005 was affected by non-income based taxes, such as the federal large corporation tax. Income taxes for the comparable quarters were as follows:

First Quarter ended March 31 (thousands)	**2005**	2004
Canadian tax rate net of manufacturing and processing deduction	**$ 715**	$ 304
Federal large corporations tax	**23**	25
Foreign tax differentials	**7**	30
Tax recoveries and other	**(63)**	(45)
	$ 682	$ 315
Income tax expense, Continuing operations	**708**	524
Income tax expense (recovery), Discontinued operations	**(26)**	(209)
	$ 682	$ 315

Cash from discontinued operations – Cash provided by discontinued operations was $0.9 million more than in 2004, primarily from improved earnings in the commercial footwear business.

Capital expenditures – Capital expenditures for the first quarter ended March 31, 2005 were $2.2 million compared to the $1.2 million in 2004. The majority of the capital expenditures related to the rubber compounding business, of which, $1.7 million pertains to production equipment for the US expansion, and $0.4 million related to equipment in the Kitchener facility. In the first quarter of 2004, $0.6 million was spent in Kitchener to upgrade production assets for the compounding business and an additional $0.5 million was spent in AEP to expand production capacity for military and first-response products.

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

Financing – The Company is pursuing a growth strategy to expand rubber compounding capacity. The first phase involves the establishing of manufacture in North Carolina. During the quarter, negotiations to obtain an additional US$6 million term loan with its existing term lending syndicate were concluded and the Company used $1.6 million of this additional term facility to finance equipment related to the U.S. expansion. The term loan bears interest at U.S. bank prime plus 1.9%, calculated monthly, and principal is repayable in equal monthly instalments (commencing the month following the final advance) with the balance repayable on October 15, 2006.

In addition, the Company increased borrowings under its operating facility by $2.8 million, primarily to support higher volumes. Subsequent to quarter-end, the Company also concluded negotiations for a new $45 million operating facility for existing and future working capital requirements. The operating line of credit bears interest from the bank's prime rate less 0.25% to the bank's prime rate plus 0.65% per annum, with respect to loans denominated in Canadian currency and from the bank's U.S. prime rate less 1% to the bank's U.S. prime rate with respect to loans denominated in U.S. currency. The fee charged for banker's acceptances is the bank's stamping fee plus 0.95% to 2.0%.

The credit/security/letter agreement provides the lenders with a perfected first security interest on all accounts receivable and inventories of the Company and its subsidiaries, secured guarantees, and an inter-creditor arrangement with the term-loan syndicate.

The Company expects to fund its 2005 operating cash requirements, including required working capital investments, capital expenditures, and scheduled debt repayments from cash on hand, cash flow from operations, and committed borrowing capacity.

Contractual obligations – The Company's contractual obligations as at December 31, 2004, are described on page 10 in the Company's 2004 Annual Report. For the three month period ended March 31, 2005, the Company did not enter into any material contractual obligations outside the normal course of business, except with respect to its financing arrangements as set out below. During the quarter, the Company obtained an additional US$6 million term loan facility and on April 28, 2005, entered into a new $45 million operating facility as noted in the Financing section above.

OUTLOOK

Sales growth in all areas is expected to continue throughout the balance of the year mainly due to growth in compounds (tires, belting, and automotive). Commodity costs remain unpredictable although there is some indication that prices for certain key materials have stabilized. High energy prices remain a concern both in terms of operating costs and higher freight rates. Efforts will continue to be made to pass along cost increases whenever possible to preserve margins or restore them to traditional levels.

The announced expansion in North Carolina is a major undertaking for the Company requiring equipment, working capital and management resources. Marketing activities have begun to identify specific customers and customer requirements best suited to the new facilities.

Sales and operating profits from both our military products and railway fastening products are on target and both are expected to exceed last year's results.

R.L. Hagerman
President and Chief Executive Officer

S.W. Richards
Vice-President Finance and Secretary

Consolidated Balance Sheets

(thousands $ CAD)

	March 31, 2005	December 31, 2004
	(unaudited)	
ASSETS		
Current assets:		
Accounts receivable	**$ 30,466**	$ 24,471
Inventories	**33,502**	28,228
Prepaid expenses	**1,381**	455
Current assets of discontinued operations (Note 2)	**1,976**	3,917
Total assets	**67,325**	57,071
Capital assets, net	**46,917**	45,840
Long-term assets of discontinued operations (Note 2)	**226**	226
Goodwill	**16,620**	16,620
Other assets	**2,168**	2,407
Total assets	**$ 133,256**	$ 122,164
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand loan (Note 9)	**$ 17,069**	$ 12,483
Accounts payable and accrued liabilities	**25,863**	22,133
Income taxes payable	**736**	387
Current liabilities of discontinued operations (Note 2)	**218**	640
Current portion of term loan and other debt	**4,096**	4,096
Total current liabilities	**47,982**	39,739
Term loan and other debt (Note 8)	**18,330**	17,500
Future income tax liabilities	**10,020**	9,780
Accrued post retirement benefit liability	**1,135**	1,071
Total liabilities	**77,467**	68,090
Shareholders' equity:		
Share capital	**38,726**	38,631
Contributed surplus (Note 3)	**1,036**	936
Retained earnings	**16,027**	14,507
Total shareholders' equity	**55,789**	54,074
Total liabilities and shareholders' equity	**$ 133,256**	$ 122,164

See accompanying notes to consolidated financial statements.

On behalf of the Board

Robert L. Hagerman, Director

Robert L. McLeish, Director

Consolidated Statements of Income and Retained Earnings

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

For the three month period ended March 31	2005	2004
NET SALES	$ 59,568	$ 44,055
Cost of sales	52,276	37,774
Gross margin	7,292	6,281
OPERATING EXPENSES:		
General and administrative	2,249	1,921
Selling, marketing and distribution	1,818	1,822
Product research	431	347
Total operating expenses	4,498	4,090
Income before undernoted items	2,794	2,191
Interest expense	801	698
Other income	(273)	(303)
Income from continuing operations, before income taxes	2,266	1,796
Provision for income taxes (Note 4)	708	524
Net Income from continuing operations	1,558	1,272
Loss from discontinued operations, net of tax (Note 2)	(38)	(681)
Net income	1,520	591
Retained earnings, beginning of period	14,507	12,775
Retained earnings, end of period	$ 16,027	$ 13,366
Net income per share		
From continuing operations		
– Basic	$ 0.07	$ 0.06
– Diluted	$ 0.07	$ 0.06
From net income		
– Basic	$ 0.07	$ 0.03
– Diluted	$ 0.06	$ 0.03

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(unaudited) (thousands $ CAD)

For the three month period ended March 31	2005	2004
CASH PROVIDED BY (USED IN):		
Operating Activities:		
Net income from continuing operations	$ 1,558	$ 1,272
Items not affecting cash:		
Amortization	1,257	1,385
Future income taxes	240	266
Foreign exchange loss	98	111
Options expense	100	–
Post-retirement benefits expense	64	59
	3,317	3,093
Changes in non-cash operating working capital balances	(8,116)	(3,549)
Net cash used in continuing operations	(4,799)	(456)
Net cash provided by discontinued operations	1,481	539
Cash provided by (used in) operating activities	(3,318)	83
Investing Activities:		
Purchase of capital assets	(2,193)	(1,157)
Cash used in investing activities	(2,193)	(1,157)
Financing Activities:		
Net increase in demand loan	4,586	1,859
Net increase in term loan	1,580	–
Repayment of term debt	(750)	(750)
Increase in other debt	–	(35)
Issuance of share capital	95	–
Cash provided from financing activities	5,511	1,074
Increase (decrease) in during the period	–	–
Cash and short-term deposits at the beginning of the period	–	–
Cash and short-term deposits at the end of the period	$ –	$ –
Supplementary Cash Flow Information:		
Cash interest paid	$ 1,106	$ 639
Cash income taxes remitted	79	201

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Three months ended March 31, 2005 and 2004 (Unaudited)

(thousands, except share and per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for financial statements, except that certain disclosures required for annual financial statements have not been included. Accordingly, these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2004, except as noted below. The unaudited interim consolidated financial statements have been prepared on a basis that is consistent with the policies set out in the Company's consolidated annual financial statements for fiscal 2004.

Seasonality – The Company is not significantly affected by seasonal or cyclical business factors.

NOTE 2 – DISCONTINUED OPERATIONS

Commercial Footwear – During the quarter ended June 30, 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. Commercial footwear production 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 "AirBoss Engineered Products & Other" segment of the segmented results.

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

Quarter ended March 31:	2005	2004
Net sales	$ 835	$ 3,568
Gross Margin	24	689
Operating expenses	(49)	1,057
Loss before tax	(25)	(368)
Net loss	$ (15)	$ (252)

Assets and liabilities held in discontinued operations:

	March 31, 2005	December 31, 2004
Accounts receivable	$ –	$ 1,494
Inventory	526	1,011
Current assets	526	2,505
Accounts payable	57	488

The Company's assets and liabilities related to the commercial footwear activities will be liquidated in the normal course of business. Any remaining finished goods will be sold by August 2005 under the terms of a purchase agreement.

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 expected to conclude binding agreements however, negotiations are still underway. 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 "AirBoss Engineered Products & Other" and the "Railway and distribution" segments of the segmented results.

Quarter ended March 31:	2005	2004
Net sales	$ 1,008	$ 819
Gross Margin	130	40
Operating expenses	168	562
Loss before tax	(39)	(522)
Net loss	$ (23)	$ (429)

Assets and liabilities held in discontinued operations:

	March 31, 2005	December 31, 2004
Accounts receivable	$ 475	$ 388
Inventory	964	994
Prepaid expenses	11	31
Current assets	1,450	1,412
Accounts payable	161	152
Capital assets	$ 226	$ 226

NOTE 3 – STOCK OPTIONS

During the three month period ended March 31, 2005, the Company issued 50,000 stock options to a director. The fair value of options issued has been determined using the Black-Scholes option pricing model using the following assumptions:

Risk-free rate	3.48%
Dividend yield	0%
Volatility factor of the expected market price of the Company's shares	65%
Average expected option life (years)	5.0
Weighted-average grant date fair value per share of options granted during the year	$ 2.306

The stock options issued in the three month period ended March 31, 2005 vest as follows:

	Number of Options
February 23, 2006	7,500
February 23, 2007	7,500
February 23, 2008	10,000
February 23, 2009	12,500
February 23, 2010	12,500
	50,000

For the three month period ended March 31, 2005, the Company recorded stock-based compensation of $0.1 million relating to current and prior year option grants, which is included in general and administrative expenses in the statement of operations.

During the first quarter of 2005, 85,000 stock options were exercised with an exercise price of $1.12.

NOTE 4 – INCOME TAXES

The provision for income taxes varies from the statutory rate for the following reasons:

Quarter ended March 31:	2005	2004
Canadian tax rate net of manufacturing and processing deduction	$ 715	$ 304
Federal large corporations tax	23	25
Foreign tax differentials	7	31
Permanent differences and other	(63)	(45)
	$ 682	$ 315
Income tax expense, Continuing operations	708	524
Income tax expense (recovery), Discontinued operations	(26)	(209)
	$ 682	$ 315

Notes *(continued)*

NOTE 5 – FOREIGN EXCHANGE RISK

The Company operates in North America which gives rise to a risk that its income, cash-flows, and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rates between the U.S. and Canadian dollars. Amounts denominated in U.S. currency represents 67% of total accounts receivable, 74% of accounts payable, and 80% of bank indebtedness.

NOTE 6 – FUTURE RETIREMENT BENEFITS

During the three month periods ended March 31, 2005 and 2004, the Company's future retirement benefits expenses were $54.6 and $50.6 respectively.

NOTE 7 – SEGMENTED INFORMATION

	Sales excluding Inter-Company				
March 2005	**Canada**	**USA**	**Other**	**Total**	**Inter-Company**
Rubber compounding operations	$ 17,362	$ 22,590	$ 204	$ 40,156	$ 235
Engineered products					
Railway Products	–	6,746	6	6,752	–
Acton and other	2,435	9,620	605	12,660	2,415
	$ 19,797	**$ 38,956**	**$ 815**	**$ 59,568**	**$ 2,650**

		Engineered Products			
March 2005	**Rubber Compounding Operations**	**Railway Products**	**AEP & Other**	**Corporate & Inter-Company Eliminations**	**Total**
Sales	$ 40,387	$ 6,752	$ 15,080	$ (2,651)	$ 59,568
Cost of sales	37,161	5,582	12,184	(2,651)	52,276
	3,226	1,170	2,896	–	7,292
Operating expenses	2,414	517	1,444	651	5,026
Income (loss) before income taxes	812	653	1,452	(651)	2,266
Provision for income taxes					(708)
Net Income					$ 1,558
Assets employed – Canada	$ 80,934	$ –	$ 39,694	$ 860	$ 121,488
– USA	3,592	5,975	–	–	9,567
– Total	$ 84,526	$ 5,975	$ 39,694	$ 860	$ 131,055
Purchase of capital assets	$ 2,059	$ 15	$ 107	$ 12	$ 2,193
Amortization – Capital and other assets	619	88	495	55	1,257

March 2004	Sales excluding Inter-Company Canada	USA	Other	Total	Inter-Company
Rubber compounding operations	$ 7,889	$ 20,404	$ 48	$ 28,341	$ 1,295
Engineered products					
Railway Products	–	6,199	–	6,199	3
Acton and other	1,396	8,115	4	9,515	1,325
	$ 9,285	$ 34,718	$ 52	$ 44,055	$ 2,623

March 2004	Rubber Compounding Operations	Engineered Products Railway Products	AEP & Other	Corporate & Inter-Company Eliminations	Total
Sales	$ 29,635	$ 6,203	$ 10,840	$ (2,623)	$ 44,055
Cost of sales	26,518	4,991	8,888	(2,623)	37,774
	3,117	1,212	1,952	–	6,281
Operating expenses	2,116	325	1,444	600	4,485
Income (loss) before income taxes	1,001	887	508	(600)	1,796
Provision for income taxes					(524)
Net income					$ 1,272
Assets employed – Canada	$ 69,664	$ –	$ 39,274	$ (531)	$ 108,407
– USA	–	5,768	–	–	5,768
– Total	$ 69,664	$ 5,768	$ 39,274	$ (531)	$ 114,175
Purchase of capital assets	$ 567	$ 37	$ 552	$ 1	$ 1,157
Amortization – Capital and other assets	499	85	756	45	1,385

NOTE 8 – TERM LOAN

During the quarter, negotiations to obtain an additional U.S. $6 million term loan with its existing term lending syndicate were concluded and the Company utilized $1.6 million of this additional term facility to finance equipment related to the U.S. expansion. The term loan bears interest at U.S. bank prime plus 1.9%, calculated monthly, and principal is repayable in equal monthly installments (commencing the month following the final advance) with the balance repayable on October 15, 2006.

NOTE 9 – SUBSEQUENT EVENT

On April 28, 2005, the Company completed its process to obtain a new operating line facility to finance growth requirements which increased borrowing capacity from $27 million to $45 million.

The operating line of credit bears interest from the bank's prime rate less 0.25% to the bank's prime rate plus 0.65% per annum, with respect to loans denominated in Canadian currency and from the bank's U.S. prime rate less 1% to the bank's U.S. prime rate with respect to loans denominated in U.S. currency. The fee charged for banker's acceptances is the bank's stamping fee plus 0.95% to 2.0%.

The credit/security/letter agreement provides the lenders with a perfected first security interest on all accounts receivable and inventories of the Company and its subsidiaries, secured guarantees, and an inter-creditor arrangement with the term loan syndicate.

AIRBOSS OF AMERICA CORP.

OFFICES

Canada

NEWMARKET, ONTARIO – AirBoss of America Corp.
Corporate Office: 16441 Yonge Street, Newmarket, Ontario, Canada L3X 2G8
Telephone: 905-751-1188
Facsimile: 905-751-1101
Chairman: P.G. (Gren) Schoch
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

KITCHENER, ONTARIO – AirBoss Rubber Compounding
Address: 101 Glasgow Street, Kitchener, Ontario, Canada N2G 4X8
Telephone: 519-576-5565
Facsimile: 519-576-1315
Divisional President: Ben Stevens
Vice-President Sales and Marketing: John Tomins

SUBSIDIARIES

QUEBEC – AirBoss Produits d'Ingenierie Inc / AirBoss Engineered Products Inc.
Address: 881 Landry, Acton Vale, Québec, Canada J0H 1A0
Telephone: 450-546-2776
Facsimile: 450-546-3735
Director of Manufacturing: Yvan Ambeault
President, AirBoss Defense Products: Earl Laurie
Sales Manager - Industrial Products: Marcel Courtemanche

United States

NORTH CAROLINA – AirBoss Rubber Compounding (NC), Inc.
Address: 2150 South Main Street, Waynesville, North Carolina, U.S.A. 28786
Telephone: 828-456-1002
Facsimile: 828-456-5466
General Manager: Kathy Huffman

MISSOURI – AirBoss Railway Products, Inc.
Address: 9229 Ward Parkway, Suite 260, Kansas City, Missouri, U.S.A. 64114
Telephone: 816-822-7599
Facsimile: 816-822-0150
President: Robert (Bob) Magnuson
Vice-President: José Mediavilla

www.airbossofamerica.com

Designed and produced by Imagine That! Communications Corp.