AIRBOSS OF AMERICA CORP.

2005 SECOND 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.

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SECOND QUARTER 2005 RESULTS

(thousands $ CAD, except per share amounts)	Three months ended June 30 2005	2004	Six months ended June 30 2005	2004
Net sales	**$ 61,589**	$ 49,655	**$ 121,157**	$ 93,710
Gross margin	**7,812**	7,182	**15,104**	13,463
Earnings before interest, taxes & amortization (EBITDA) (Note 1)	**4,807**	4,643	**9,157**	8,541
Interest expense	**754**	781	**1,581**	1,498
Net income from continuing operations	**1,784**	1,338	**3,342**	2,610
Loss from discontinued operations, net of tax	**(187)**	(365)	**(225)**	(1,046)
Net income	**1,597**	973	**3,117**	1,564
Net income per share, from continuing operations				
– Basic	**$ 0.08**	$ 0.06	**$ 0.15**	$ 0.12
– Diluted	**0.07**	0.06	**$ 0.14**	$ 0.11
Net income per share				
– Basic	**$ 0.07**	$ 0.04	**$ 0.14**	$ 0.07
– Diluted	**0.07**	0.04	**$ 0.13**	$ 0.07
Cash flow before changes in non-cash working capital from continuing operations	**$ 3,051**	$ 3,669	**$ 6,368**	$ 6,762
Common shares outstanding (millions)				
– Basic	**22.8**	22.5	**22.7**	22.5
– Diluted	**24.0**	23.0	**23.9**	23.1

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.

(thousands)	Three months ended June 30 2005	2004	Six months ended June 30 2005	2004
Income from continuing operations before income taxes	**$ 2,747**	$ 2,035	**$ 5,013**	$ 3,831
Interest expense	**754**	781	**1,581**	1,498
Amortization from continuing operations	**1,306**	1,827	**2,563**	3,212
EBITDA – continuing operations	**$ 4,807**	$ 4,643	**$ 9,157**	$ 8,541

Letter to Shareholders

Sales for the six month period ended June 30, 2005 increased by 29% while income from continuing operations increased by 28%. The trend established in the first quarter of increased volumes from sales of rubber compound and increased income from the improved performance of military and railroad products continued.

AIRBOSS RUBBER COMPOUNDING

Sales volumes for the six month period ended June 30, 2005 increased by approximately 10% compared to the previous year. Sales dollars increased by 32% as prices reflected the recovery of higher raw material costs. Demand from key industry sectors such as mining, energy and transportation continues to be robust as expected. This is forecasted to continue for the remainder of the year. We also expect to add at least 20 million pounds in annualized business in the last half of the year.

Raw material prices remained high throughout the quarter. Synthetic rubber prices have dropped on the spot market following the end of the quarter but natural rubber and carbon black prices have increased. There is not a high degree of predictability in either direction and the objective will be to reduce exposure to these fluctuations.

Results in the short term have been negatively impacted by the poor performance of the temporary satellite mixing plant in Waynesville, North Carolina. This was exacerbated by costly production disruptions due to certain faulty raw materials. We believe these problems will be rectified in the later half of the year.

The completion of the new facility in Scotland Neck is on schedule and the major installation activity is due to commence in the later part of the third quarter and continue until year end.

We are looking for improved results in the last half of the year due to increased volume, the elimination of further problems in Waynesville and improved efficiencies in Kitchener.

AIRBOSS ENGINEERED PRODUCTS

Sales for this product group, which includes both military and industrial rubber products, increased by 23% for the six months period compared to the previous year.

AirBoss-Defense – The defense products group has made a significant contribution to the results in the first half of 2005 and has positioned itself for continued impressive growth for the next several years. In June 2005 we announced that AirBoss was the sole company selected for Phase III testing of CBRN ("Chemical, Biological, Radiological and Nuclear") overboots and JB2GU Type II gloves by the US Joint Military Services. The current maximum dollar amount of contracts which could result following a successful completion of Phase III would be US $121 million over a 5 year period. The timing of this increase in business is a good fit with the completion of our new facility in Scotland Neck, North Carolina.

Sales of military products for the 6 months ended June 30, 2005 have increased by 17% over the prior year.

Industrial Products – Sales were slightly below plan for the six months but profitability met expectations due to a favourable product mix. Efficiencies have improved due to the elimination of the commercial footwear production which disrupted industrial workflow and involved numerous small rubber production runs.

AIRBOSS RAILWAY PRODUCTS

Sales for the six month period increased by 28% compared to 2004. Sales of cast tie plates continue to be strong and this should extend through the third quarter. Designs have been completed and approved for our first products designed for non-North American markets. We hope to have these in production by the end of the year.

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

OUTLOOK

The Company is focusing on the successful completion of the AirBoss-Defense contracts and related testing, completion of the facilities at Scotland Neck and the expansion of the geographical markets for the Railway Products group. All of these initiatives will positively impact the long-term growth of the Company.

Raw material prices continue to be the largest single short term challenge for the rubber industry. There are many different factors involved including worldwide supply and demand and exchange rates. We will focus on the factors that we can control such as efficiency and quality.

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 and six month periods ended June 30, 2005 prepared as of July 22, 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. 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 first quarter, the Company secured an additional term loan facility of US $6.0 million maturing October 16, 2006, amortized over a ten year period following the final draw-down of funds to finance capital requirements for its U.S. expansion. In addition, on April 28, 2005, the Company finalized a new $45.0 million operating line facility to finance future growth requirements.

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

SELECTED FINANCIAL INFORMATION

(thousands, except per share amounts)

	Three months ended June 30		Six months ended June 30	
	2005	2004	**2005**	2004
Net sales	**$ 61,589**	$ 49,655	**$ 121,157**	$ 93,710
Net income	**1,597**	973	**3,117**	1,564
Net earnings per share – continuing operations				
– Basic	**$ 0.08**	$ 0.06	**$ 0.15**	$ 0.12
– Diluted	**0.07**	0.06	**0.14**	0.11
Cash flow before changes in non-cash working capital	**3,051**	3,669	**6,368**	6,762
Cash dividends declared	**$ –**	$ –	**$ –**	$ –

(thousands)

	June 30, 2005	December 31, 2004
Total assets	**$ 130,593**	$ 122,164
Demand loan	**19,837**	12,483
Current portion of term loan and other debt	**4,096**	4,096
Long-term portion of term loan and other debt	**17,593**	17,500

QUARTERLY INFORMATION

(thousands, except per share amounts)

	Net Sales Continuing Operations	Net Income (Loss)		Net Income Per Share – Continuing Operations		Net Income (Loss) Per Share	
Quarter Ended		Continuing	Total	Basic	Diluted	Basic	Diluted
June 30, 2005	$ 61,589	$ 1,784	$ 1,597	$ 0.08	$ 0.07	$ 0.07	$ 0.07
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

(thousands, except per share amounts)

	Net Sales Continuing Operations	Net Income (Loss)		Net Income (Loss) Per Share – Continuing Operations		Net Income (Loss) Per Share	
Quarter Ended		Continuing	Total	Basic	Diluted	Basic	Diluted
June 30, 2004	$ 49,655	$ 1,338	$ 973	$ 0.06	$ 0.06	$ 0.04	$ 0.04
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

RESULTS OF OPERATIONS

Three month and six month periods ended June 30, 2005 compared to the same period in 2004.

SALES FROM CONTINUING OPERATIONS

Sales revenue for the second quarter ended June 30, 2005 of $61.6 million represented an increase of $11.9 million or 24% in 2005 compared with 2004, and an increase of $27 million or 29.3% for six months year-to-date. Net sales in the quarter to non-Canadian customers represented 66.1% (2004-73.4%) of net sales.

Three month period ended June 30 (thousands)	Rubber Compounding Operations	Engineered Products		Total
		Railway Products	AEP & Other	
Net Sales – 2005	**$ 38,465**	**$ 7,473**	**$ 15,651**	**$ 61,589**
– 2004	31,378	4,927	13,350	49,655
Increase	$ 7,087	$ 2,546	$ 2,301	$ 11,934
Increase	22.6%	51.7%	17.2%	24.0%

Six month period ended June 30 (thousands)	Rubber Compounding Operations	Engineered Products		Total
		Railway Products	AEP & Other	
Net Sales – 2005	**$ 78,616**	**$ 14,219**	**$ 28,322**	**$ 121,157**
– 2004	59,653	11,127	22,930	93,710
Increase	$ 18,963	$ 3,092	$ 5,392	$ 27,447
Increase	31.8%	27.8%	23.5%	29.3%

Rubber Compounding – Net sales for the quarter ended June 30, 2005 increased by $7.1 million or 22.6% to $38.5 million, compared to the second quarter of 2004. Increased volumes of 2.4% were attributable to the belting and re-treading sectors serviced by the new facility in Waynesville, N.C. During the period, production was adversely affected by higher than normal equipment down-time, and raw materials that were not within specifications.

Net sales revenue for the six month period increased by $19 million or 31.8% or by 10.3% on unit volume basis.

Railway Products – Net sales for the quarter and year-to-date increased 51.7%, and 27.8% respectively over 2004, from higher volumes.

AirBoss Engineered Products and Other – Net sales increased $2.3 million or 17.2% for the quarter, and $5.4 million or 23.5% for the year-to-date. The increase was due to higher military sales.

GROSS MARGINS

Gross margin for the three month period ended June 30, 2005 increased by $0.6 million from $7.2 million to $7.8 million compared to 2004, representing a 8.8% increase. Although net sales revenues increased by 24% for the second quarter, gross margin rates continue to be negatively affected by competitive pricing, rising commodity prices, energy cost increases, and costs associated with the U.S. expansion.

Three month period ended June 30 (thousands)	Rubber Compounding Operations	Engineered Products		Total
		Railway Products	AEP & Other	
Gross Margins – 2005	**$ 2,913**	**$ 899**	**$ 4,000**	**$ 7,812**
– 2004	3,159	870	3,153	7,182
Increase (decrease)	$ (246)	$ 29	$ 847	$ 630
% of net sales – 2005	**7.6%**	**12.0%**	**25.6%**	**12.7%**
– 2004	10.1%	17.7%	23.6%	14.5%

Although the gross margin percentage declined on a year-to-date basis, gross margin for the six month period increased $1.6 million or 12.5% compared to 2004 from higher net sales.

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

Six month period ended June 30 (thousands)	Rubber Compounding Operations	Engineered Products		Total
		Railway Products	AEP & Other	
Gross Margins – 2005	**$ 6,139**	**$ 2,069**	**$ 6,896**	**$ 15,104**
– 2004	6,276	2,082	5,105	13,463
Increase (decrease)	$ (137)	$ (13)	$ 1,791	$ 1,641
% of net sales – 2005	**7.8%**	**14.6%**	**24.3%**	**12.5%**
– 2004	10.5%	18.7%	22.3%	14.4%

Rubber Compounding – Input commodity prices continued to rise in the second quarter in response to market conditions. Through the first quarter, the synthetic rubber market was subject to supply allocation as a result of scarce supply and increasing petrochemical costs. Although supply restrictions for synthetic rubber began to soften toward the end of the second quarter, prices for natural rubber and carbon black continued to rise. Compared to the same quarter last year, total material costs have increased over 14%. The Division was able to pass along most of these increases to customers although in the second quarter of 2004, the Division lagged in passing on material cost increases. Despite a small improvement in the margins compared to last year, the percentage decreased. Waynesville operations accounted for 1.5% of the reduction in the gross margin percentage. The balance was attributed to increased maintenance and additional seasonal staffing costs in Kitchener.

On a year-to-date basis, gross margin rates in the Division continue to lag behind historical 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 increased slightly to $0.9 million. However, the gross margin percentage dropped to 12% of net sales for the quarter as steel prices increased and the business was locked into fixed price contracts without the ability to pass along the increased costs.

AirBoss Engineered Products and Other – Increased sales volume and favourable product sales mix of military products accounted for the majority of the improvement in gross margin. In 2005, sales are more heavily weighted to the beginning of the year, unlike 2004.

OPERATING EXPENSES

Operating expenses decreased by $0.1 million during the second quarter ended June 30, 2005 compared to the same quarter in 2004. The operating expense decrease reflects lower exchange losses and interest costs compared with 2004.

Three month period ended June 30 (thousands)	Rubber Compounding Operations	Engineered Products		Corporate & Intercompany Eliminations	Total
		Railway Products	AEP & Other		
Operating expenses[(1)] – 2005	**$ 2,119**	**$ 505**	**$ 1,715**	**$ 726**	**$ 5,065**
– 2004	2,324	1,034	1,142	647	5,147
Increase (decrease)	$ (205)	$ (529)	$ 573	$ 79	$ (82)

Six month period ended June 30 (thousands)	Rubber Compounding Operations	Engineered Products		Corporate & Intercompany Eliminations	Total
		Railway Products	AEP & Other		
Operating expenses[(1)] – 2005	**$ 4,534**	**$ 1,022**	**$ 3,159**	**$ 1,376**	**$ 10,091**
– 2004	4,440	1,359	2,586	1,247	9,632
Increase (decrease)	$ 94	$ (337)	$ 573	$ 129	$ 459

[(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 $2.1 million or 5.5% of net sales in the quarter as compared to $2.3 million or 7.4% of net sales in the second quarter of 2004. The decrease of $0.2 million was mostly due to freight savings on production transferred to Waynesville from Kitchener. On a year-to-date basis, operating expenses increased due to higher interest costs.

Railway Products – Operating expenses were $0.5 million or 6.7% of sales in the quarter as compared to $1.0 million or 20.9% of sales in the second quarter of 2004. The decrease of $0.5 million relates to a higher amortization of research and development costs in 2004. The year-to-date result was also affected by lower foreign exchange gains and lower general and administrative expenses in the first quarter.

AirBoss Engineered Products – Operating expenses were $1.7 million or 10.9% of sales in the quarter as compared to $1.1 million or 8.5% of sales in the second quarter of 2004. The increase is primarily due to higher support costs for military products.

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, chiefly attributable to recording stock-based compensation relating to current and prior year options granted. Year-to-date, higher option expenses of $0.2 million were partially offset by lower equipment and promotional expenses.

INCOME TAX EXPENSE

The Company recorded an income tax provision for the quarter of $1.0 million or 35.0% of income from continuing operations before income taxes, compared to $0.7 million or 34.2% in the second quarter of 2004. The change in the income tax rate reflects adjustments on filing the previous year's tax returns. Year to date, the effective tax rate for 2005 and 2004 was 33.3% and 31.9% respectively.

NET LOSS FROM DISCONTINUED OPERATIONS

Net sales and gross profit for the quarter decreased by $1.8 million and $0.2 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 second quarter of 2005 by $0.6 million or 64% to $1.6 million from $1.0 million in 2004. From continuing operations, basic earnings per share were $0.08 and diluted earnings per share were $0.07 in 2005, and $0.06 and $0.06 respectively in 2004. From net income, basic and diluted earnings per share was $0.07 compared to $0.04 in 2004. The basic weighted average number of shares outstanding in the quarter increased by 134,442 to 22,764,198 (compared to 22,536,923 in 2004), as a result of employees exercising options. The fully diluted weighted average number of shares outstanding increased in the quarter by 135,871 to 23,981,464 as compared to 22,979,492 in the same quarter of 2004, mainly due to more options being exercisable.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from continuing operations – AirBoss generated $3.0 million in operating cash flows before changes in non-cash working capital balances during the second quarter ended June 30, 2005 compared to $3.7 million in 2004. The decrease is mainly due to a reduction in future income taxes. Year to date, $6.4 million was provided from operations compared to $6.7 million last year also due to future income taxes.

Non-cash working capital – The investment in non cash working capital relating to continuing operations was $43.7 million at June 30, 2005 compared to $33.1 million at the end of the second quarter of 2004.

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

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

- A decrease in accounts receivable of $0.3 million reflecting an improvement in days sales outstanding
- An increase in inventory of $13.1 million reflecting higher commodity price levels, general and expansion start-up inventories
- Higher insurance premiums and deferred financing charges contributed to a $0.6 million increase in prepaid expenses
- An increase in accounts payable of $0.5 million from higher raw material purchases
- A $2.2 million increase in income taxes payable due to higher profitability and use of loss carry forwards.

The effective income tax rate for the six months ended June 30, 2005 was affected by non-income based taxes, such as the federal large corporation tax. Income taxes for the comparable quarters were as follows:

Six month period ended June 30 (thousands)	**2005**	2004
Canadian tax rate net of manufacturing and processing deduction	**$ 1,541**	$ 665
Federal large corporations tax	**11**	46
Foreign tax differentials	**(47)**	26
Tax recoveries and other	**40**	(75)
	$ 1,545	$ 662
Income tax expense, Continuing operations	**$ 1,671**	$ 1,221
Income tax expense (recovery), Discontinued operations	**(126)**	(559)
	$ 1,545	$ 662

Cash from discontinued operations – Cash provided by discontinued operations was $1.7 million more than in 2004 for the quarter ($2.6 million year-to-date), primarily from improved earnings from the footwear operation.

Capital expenditures – Capital expenditures for the second quarter ended June 30, 2005 were $1.3 million compared to the $1.0 million in 2004, and $3.5 million compared to $2.1 million year-to-date. The majority of the capital expenditures related to the rubber compounding business, of which, $0.5 million pertains to production equipment for the U.S. expansion, $0.4 million was spent to upgrade production assets and $0.2 million related to floor and roof repairs in Kitchener. On a year-to-date basis, $2.1 million was incurred for production equipment for U.S. expansion, $1.1 million for Kitchener equipment and capital repairs to the building, and $0.2 for AEP manufacturing equipment for the military production.

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 utilized this additional term facility to finance $1.6 million of 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.

In addition, the Company increased borrowings under its operating facility by $2.8 million, to support higher sales activity. Subsequent to the first quarter, 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% 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 loan agreement provides the lenders with a 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.

During the quarter, the Company had drawn $2.8 million against its operating line, made the required payments against the term loan, and issued $0.3 million of shares pursuant to the option arrangement.

Contractual obligations – The Company's contractual obligations as at December 31, 2004 are described on page 10 in the Company's Annual Report 2004. For the six month period ended June 30, 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 first 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

The longer term outlook for the key segments of the Company's businesses remains excellent. The passing of final phase testing and the securing of orders for CBRN gloves and overshoes pursuant to the recently announced contracts with U.S. military is a priority over the next 12 months. These contracts have the potential to increase our military products business by as much as 50%. The expansion of our compounding business into the south western U.S. at Scotland Neck at the end of the current year will bring much needed capacity and allow us to target customers that we can not currently service. The Railway Products group is finalizing new products specifically designed for foreign markets. It is hoped that the first of these will be produced and delivered to year end.

In the next two quarters the challenges include increasing volume and productivity in the rubber compounding business. This will come primarily with the resolution of the production problems experienced in the satellite mixing facility in Waynesville, NC and increased volumes which we hope to secure with new customers. Improved performance from this group is required due to the seasonal nature of the Railway and Military Products groups.

Commodity prices are expected to continue to play an important part in short term profitability. While we have experienced some signs of relief in respect of synthetic rubber and steel, natural rubber has again increased. With this affecting the industry it is even more incumbent upon us to remain and improve on production efficiencies and asset utilization.

Robert L. Hagerman
President and Chief Executive Officer

Stephen W. Richards
Vice-President Finance and CFO

Consolidated Balance Sheets

(thousands $ CAD)

	June 30, 2005 (unaudited)	December 31, 2004
ASSETS		
Current assets:		
Accounts receivable	**$ 29,054**	$ 24,471
Inventories	**33,400**	28,228
Prepaid expenses	**1,434**	455
Current assets of discontinued operations (Note 2)	**1,760**	3,917
Total current assets	**65,648**	57,071
Capital assets, net	**47,195**	45,840
Long-term assets of discontinued operations (Note 2)	**114**	226
Goodwill	**16,620**	16,620
Other assets	**1,016**	2,407
Total assets	**$ 130,593**	$ 122,164
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand loan (Note 9)	**$ 19,837**	$ 12,483
Accounts payable and accrued liabilities	**18,240**	22,133
Income taxes payable	**1,909**	387
Current liabilities of discontinued operations (Note 2)	**143**	640
Current portion of term loan and other debt	**4,096**	4,096
Total current liabilities	**44,225**	39,739
Term loan and other debt (Note 8)	**17,593**	17,500
Future income tax liabilities	**9,825**	9,780
Accrued post retirement benefit liability	**1,200**	1,071
Total liabilities	**72,843**	68,090
Shareholders' equity:		
Share capital	**38,978**	38,631
Contributed surplus (Note 3)	**1,148**	936
Retained earnings	**17,624**	14,507
Total shareholders' equity	**57,750**	54,074
Total liabilities and shareholders' equity	**$ 130,593**	$ 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)

	Three months ended June 30		Six months ended June 30	
	2005	2004	**2005**	2004
NET SALES	**$ 61,589**	$ 49,655	**$ 121,157**	$ 93,710
Cost of sales	**53,777**	42,473	**106,053**	80,247
Gross margin	**7,812**	7,182	**15,104**	13,463
OPERATING EXPENSES:				
General and administrative	**2,253**	2,163	**4,476**	4,065
Selling, marketing and distribution	**1,897**	1,916	**3,715**	3,738
Product research	**366**	361	**797**	708
Total operating expenses	**4,516**	4,440	**8,988**	8,511
Income before undernoted items	**3,296**	2,742	**6,116**	4,952
Interest expense	**754**	781	**1,581**	1,498
Other income	**(205)**	(74)	**(478)**	(377)
Income from continuing operations, before income taxes	**2,747**	2,035	**5,013**	3,831
Provision for income taxes (Note 4)	**963**	697	**1,671**	1,221
Net Income from continuing operations	**1,784**	1,338	**3,342**	2,610
Loss from discontinued operations, net of tax (Note 2)	**(187)**	(365)	**(225)**	(1,046)
Net income	**1,597**	973	**3,117**	1,564
Retained earnings, beginning of period	**16,027**	13,366	**14,507**	12,775
Retained earnings, end of period	**$ 17,624**	$ 14,339	**$ 17,624**	$ 14,339
Net income per share				
From continuing operations				
– Basic	**$ 0.08**	$ 0.06	**$ 0.15**	$ 0.12
– Diluted	**$ 0.07**	$ 0.06	**$ 0.14**	$ 0.11
From net income				
– Basic	**$ 0.07**	$ 0.04	**$ 0.14**	$ 0.07
– Diluted	**$ 0.07**	$ 0.04	**$ 0.13**	$ 0.07

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(unaudited) (thousands $ CAD)

	Three months ended June 30		Six months ended June 30	
	2005	2004	**2005**	2004
CASH PROVIDED BY (USED IN):				
Operating Activities:				
Net income from continuing operations	**$ 1,784**	$ 1,338	**$ 3,342**	$ 2,610
Items not affecting cash:				
Amortization	**1,306**	1,827	**2,563**	3,212
Loss (gain) on disposal of capital assets	**(18)**	–	**(18)**	–
Future income taxes	**(195)**	272	**45**	538
Foreign exchange loss	**(3)**	173	**95**	284
Options expense	**112**	–	**212**	–
Post-retirement benefits expense	**65**	59	**129**	118
	3,051	3,669	**6,368**	6,762
Changes in non-cash operating working capital balances	**(4,989)**	(4,442)	**(13,105)**	(7,991)
Net cash used in continuing operations	**(1,938)**	(773)	**(6,737)**	(1,229)
Net cash provided by (used in) discontinued operations	**65**	(1,647)	**1,546**	(1,108)
Cash provided by (used in) operating activities	**(1,873)**	(2,420)	**(5,191)**	(2,337)
Investing Activities:				
Purchase of capital assets	**(1,354)**	(943)	**(3,547)**	(2,100)
Purchase of other assets	**(314)**	(5)	**(314)**	(5)
Disposition of other assets	**1,240**	–	**1,240**	–
Proceeds of disposal of capital assets	**18**	–	**18**	–
Cash used in investing activities	**(410)**	(948)	**(2,603)**	(2,105)
Financing Activities:				
Net increase in demand loan	**2,768**	4,132	**7,354**	5,991
Net increase in term loan	**13**	–	**1,593**	–
Repayment of term debt	**(750)**	(750)	**(1,500)**	(1,500)
Repayment of other debt	**–**	(14)	**–**	(49)
Issuance of share capital	**252**	–	**347**	–
Cash provided from financing activities	**2,283**	3,368	**7,794**	4,442
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	**$ 721**	$ 634	**$ 1,827**	$ 1,273
Cash income taxes remitted (recovered)	**316**	(543)	**395**	(342)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Six months ended June 30, 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:

	Three months ended June 30		Six months ended June 30	
	2005	2004	**2005**	2004
Net sales	**$ 348**	$ 1,665	**$ 1,183**	$ 5,233
Gross Margin	**(75)**	114	**(52)**	803
Operating expenses	**40**	696	**89**	1,753
Loss before tax	**(115)**	(582)	**(141)**	(950)
Net loss	**$ (82)**	$ (400)	**$ (97)**	$ (652)

Assets and liabilities held in discontinued operations:

	June 30, 2005	December 31, 2004
Accounts receivable	**$ 220**	$ 1,494
Inventory	**176**	1,011
Current assets	**396**	2,505
Accounts payable	**49**	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. Negotiations have been concluded for a sale of the related assets. 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.

Notes *(continued)*

	Three months ended June 30		Six months ended June 30	
	2005	2004	**2005**	2004
Net sales	**$ 450**	$ 904	**$ 1,267**	$ 1,535
Gross Margin	**(62)**	(50)	**68**	(10)
Operating expenses	**110**	84	**279**	646
Loss before tax	**(172)**	(134)	**(211)**	(656)
Net loss	**$ (105)**	$ 35	**$ (128)**	$ (394)

Assets and liabilities held in discontinued operations:

	June 30, 2005	December 31, 2004
Accounts receivable	**$ 506**	$ 388
Inventory	**847**	994
Prepaid expenses	**11**	30
Current assets	**1,364**	1,412
Accounts payable	**94**	152
Capital assets	**$ 114**	$ 226

NOTE 3 – STOCK OPTIONS

During the three month periods ended March 31, 2005 and June 30, 2005, the Company issued 50,000 and 306,000 stock options, respectively. The fair value of options issued has been determined using the Black-Scholes option pricing model using the following assumptions:

	June 30, 2005	March 31, 2005
Risk-free rate	**3.30%**	3.48%
Dividend yield	**0%**	0%
Volatility factor of the expected market price of the Company's shares	**65%**	65%
Average expected option life (years)	**5.0**	5.0
Weighted-average grant date fair value per share of options granted during the year	**$ 2.62**	$ 2.31

The stock options issued in the three month periods ended vest as follows:

June 30, 2005	**Number of Options**	March 31, 2005	**Number of Options**
June 13, 2006	**45,900**	February 23, 2006	**7,500**
June 13, 2007	**45,900**	February 23, 2007	**7,500**
June 13, 2008	**61,200**	February 23, 2008	**10,000**
June 13, 2009	**76,500**	February 23, 2009	**12,500**
June 13, 2010	**76,500**	February 23, 2010	**12,500**
	306,000		**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, and in the second quarter, an additional $0.1 million was recorded in general and administrative expenses in the statement of operations.

During the first quarter of 2005, 85,000 stock options were exercised at an exercise price of $1.12 and in the second quarter, 130,000 stock options were exercised at an average exercise price of $1.93.

NOTE 4 – INCOME TAXES

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

	Three months ended June 30		Six months ended June 30	
	2005	2004	**2005**	2004
Canadian tax rate net of manufacturing and processing deduction	**$ 825**	$ 361	**$ 1,541**	$ 665
Federal large corporations tax	**(12)**	21	**11**	46
Foreign tax differentials	**(54)**	(5)	**(47)**	26
Permanent differences and other	**104**	(30)	**40**	(75)
	$ 863	$ 347	**$ 1,545**	$ 662
Income tax expense, Continuing operations	**$ 963**	$ 697	**$ 1,671**	$ 1,221
Income tax expense (recovery), Discontinued operations	**(100)**	(350)	**(126)**	(559)
	$ 863	$ 347	**$ 1,545**	$ 662

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 88% of bank indebtedness.

NOTE 6 – FUTURE RETIREMENT BENEFITS

During the three month periods ended June 30, 2005 and 2004, the Company's future retirement benefits expenses were $65,025 and $59,000 respectively. Year to date, $128,625 and $118,000.

NOTE 7 – SEGMENTED INFORMATION

Three months ended June 30, 2005	**Sales excluding Inter-Company**				
	Canada	**USA**	**Other**	**Total**	**Inter-Company**
Rubber compounding operations	$ 15,998	$ 22,447	$ 13	$ 38,458	$ 264
Engineered products					
Railway Products	30	7,448	–	7,478	–
Acton and other	1,877	12,940	836	15,653	2,835
	$ 17,905	**$ 42,835**	**$ 849**	**$ 61,589**	**$ 3,099**

Three months ended June 30, 2005	**Rubber Compounding Operations**	**Engineered Products**		**Corporate & Inter-Company Eliminations**	**Total**
		Railway Products	**AEP & Other**		
Sales	$ 38,727	$ 7,476	$ 18,483	$ (3,098)	$ 61,589
Cost of sales	35,814	6,577	14,483	(3,098)	53,777
	2,913	899	4,000	–	7,812
Operating expenses	2,119	505	1,715	726	5,065
Income (loss) before income taxes	794	394	2,285	(726)	2,747
Provision for income taxes					(963)
Net Income					$ 1,784
Purchase of capital assets	$ 1,142	$ –	$ 214	$ (2)	$ 1,354
Amortization – Capital and other assets	607	100	475	124	1,306

Notes *(continued)*

Three months ended June 30, 2004	Canada	Sales excluding Inter-Company USA	Other	Total	Inter-Company
Rubber compounding operations	$ 12,863	$ 18,376	$ 74	$ 31,313	$ 2,152
Engineered products					
Railway Products	68	6,968	11	7,047	1
Acton and other	2,709	7,645	941	11,295	2,731
	$ 15,640	$ 32,989	$ 1,026	$ 49,655	$ 4,884

Three months ended June 30, 2004	Rubber Compounding Operations	Engineered Products Railway Products	AEP & Other	Corporate & Inter-Company Eliminations	Total
Sales	$ 33,465	$ 7,047	$ 13,664	$ (4,521)	$ 49,655
Cost of sales	30,306	6,177	10,511	(4,521)	42,473
	3,159	870	3,153	–	7,182
Operating expenses	2,324	1,034	1,142	647	5,147
Income (loss) before income taxes	835	(164)	2,011	(647)	2,035
Provision for income taxes					(697)
Net income					$ 1,338
Purchase of capital assets	$ 720	$ 61	$ 162	$ –	$ 943
Amortization – Capital and other assets	677	477	609	64	1,827

Six months ended June 30, 2005	Canada	Sales excluding Inter-Company USA	Other	Total	Inter-Company
Rubber compounding operations	$ 33,360	$ 45,037	$ 217	$ 78,614	$ 499
Engineered products					
Railway Products	30	14,194	6	14,230	–
Acton and other	4,312	22,560	1,441	28,313	5,250
	$ 37,702	**$ 81,791**	**$ 1,664**	**$121,157**	**$ 5,749**

Six months ended June 30, 2005	Rubber Compounding Operations	Engineered Products Railway Products	AEP & Other	Corporate & Inter-Company Eliminations	Total
Sales	$ 79,114	$ 14,228	$ 33,564	$ (5,749)	$ 121,157
Cost of sales	72,975	12,159	26,668	(5,749)	106,053
	6,139	2,069	6,896	–	15,104
Operating expenses	4,534	1,022	3,159	1,376	10,091
Income (loss) before income taxes	1,605	1,047	3,737	(1,376)	5,013
Provision for income taxes					(1,671)
Net Income					$ 3,342
Assets employed – Canada	$ 77,008	$ –	$ 40,994	$ 1,000	$ 119,002
– USA	4,468	5,249	–	–	9,717
– Total	$ 81,476	$ 5,249	$ 40,994	$ 1,000	$ 128,719
Purchase of capital assets	$ 3,201	$ 15	$ 321	$ 10	$ 3,547
Amortization – Capital and other assets	1,226	188	970	179	2,563

Six months ended June 30, 2004	Sales excluding Inter-Company Canada	USA	Other	Total	Inter-Company
Rubber compounding operations	$ 20,751	$ 38,780	$ 122	$ 59,653	$ 3,447
Engineered products					
Railway Products	68	13,167	11	13,246	4
Acton and other	4,105	15,760	946	20,811	3,693
	$ 24,924	$ 67,707	$ 1,079	$ 93,710	$ 7,144

Six months ended June 30, 2004	Rubber Compounding Operations	Engineered Products Railway Products	AEP & Other	Corporate & Inter-Company Eliminations	Total
Sales	$ 63,100	$ 13,250	$ 24,504	$ (7,144)	$ 93,710
Cost of sales	56,824	11,168	19,399	(7,144)	80,247
	6,276	2,082	5,105	–	13,463
Operating expenses	4,440	1,359	2,586	1,247	9,632
Income (loss) before income taxes	1,836	723	2,519	(1,247)	3,831
Provision for income taxes					(1,221)
Net income					$ 2,610
Assets employed – Canada	$ 69,181	$ –	$ 40,986	$ (146)	$ 110,021
– USA	–	5,247	–	–	5,247
– Total	$ 69,181	$ 5,247	$ 40,986	$ (146)	$ 115,268
Purchase of capital assets	$ 1,287	$ 98	$ 714	$ 1	$ 2,100
Amortization – Capital and other assets	1,176	562	1,365	109	3,212

NOTE 8 – TERM LOAN

During the first quarter, negotiations to obtain an additional US $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 – OPERATING FACILITY

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.

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