OBJECTIVES:

- GROW COMPOUNDING, MILITARY, RR FASTENINGS
- ALIGN STRATEGIES W/OPPORTUNITIES FOR GROWTH & PROFIT
- MINIMIZE CURRENCY EXPOSURE

2003 Annual Report.

AIRBOSS OF AMERICA
CORP.

2003 FINANCIAL HIGHLIGHTS

(millions, except shares and per share)	2003	2002
Net Sales	**$ 175.9**	$ 182.7
Gross Margin	**21.3**	30.9
Earnings Before Interest, Taxes and Amortization (EBITDA) (Note 1)	**5.9**	13.5
Interest	**2.8**	3.0
Asset Impairment/Reorganization	**3.0**	0.6
Net Earnings (loss)	**(4.3)**	3.6
Shareholders' Equity	**$ 52.0**	$ 56.3
Number of Shares Outstanding	**22,536,923**	22,526,923
Per Common Share		
Net Earnings (loss) Per Share		
– Basic	**(0.19)**	0.16
– Diluted	**(0.19)**	0.16
EBITDA Per Share (Basic) (Note 1)	**0.26**	0.60
Return on Equity	**(8%)**	6%

FIVE YEAR FINANCIAL HISTORY

(millions, except shares and per share)	2003	2002	2001	2000	1999
Value of Goods Produced and Sold	**$ 178.9**	$ 184.2	$ 184.1	$ 159.4	$ 147.6
Net Sales	**175.9**	182.7	169.2	138.0	120.1
Gross Margin	**21.3**	30.9	29.9	28.4	28.0
Net Earnings (loss)	**(4.3)**	3.6	3.2	2.7	7.4
Cash Flow	**3.3**	9.5	10.8	9.0	14.4
Shareholders' Equity	**$ 52.0**	$ 56.3	$ 59.7	$ 56.5	$ 53.8
Number of Shares Outstanding	**22,536,923**	22,526,923	22,499,423	22,499,423	22,629,573
Per Common Share					
Net Earnings (loss)					
– Basic	**(0.19)**	0.16	0.14	0.12	0.35
– Diluted	**(0.19)**	0.16	0.14	0.12	0.34
Return on Equity	**(8%)**	6%	6%	5%	17%

Note 1 – The Company discloses EBITDA (earnings before interest, taxes and amortization including asset impairment charge), 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.

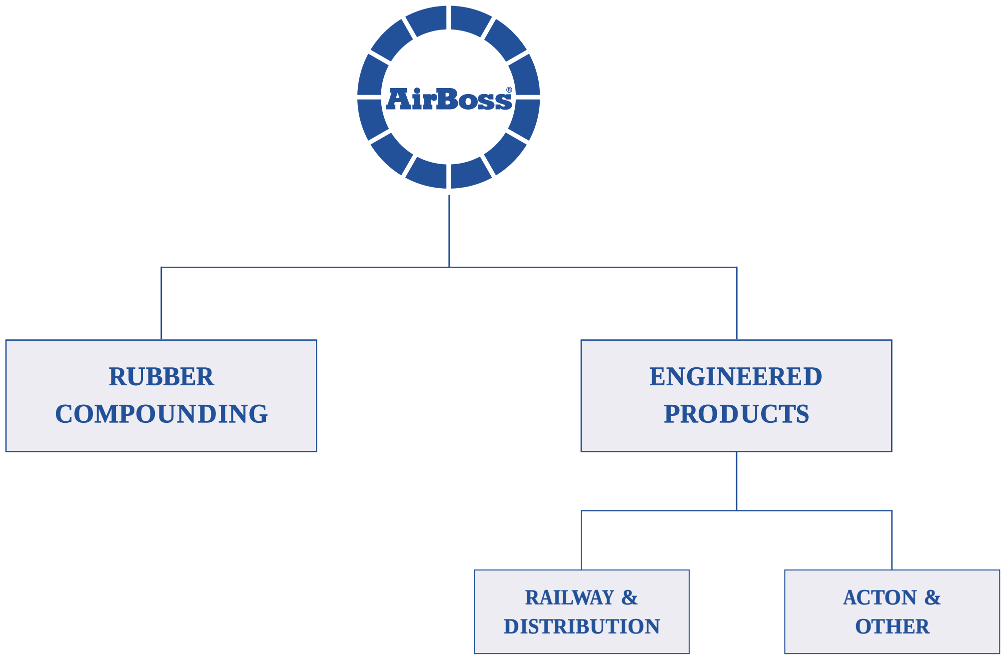
	2003	2002
Earnings (loss) before income tax	**$ (5.5)**	$ 5.6
Interest expense	**2.8**	3.0
Asset impairment charge	**3.0**	-
Amortization	**5.6**	4.9
EBITDA	**$ 5.9**	$ 13.5

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, commercial footwear and tires.



CONTENTS

Letter to Shareholders

Sales decreased by 3.7% for the year ended December 31, 2003. The translation of U.S. dollar sales was the primary reason as sales were reduced by approximately $12.2 million or 6.7%. The higher Canadian dollar negatively affected operating profits by an estimated $2.2 million while labour disputes, which have been settled, cost $1.6 million. The rapid change in exchange rates also accelerated the Company's decision to shift manufacturing focus in certain product lines to ones that demonstrated recent rapid growth.

AIRBOSS RUBBER COMPOUNDING

Rubber compounding volumes increased by 3% for the year which was a disappointment after running at a much higher rate of increase of 8% for three quarters of the year. November and December demand from key customers fell significantly below previous averages. This was perhaps reflective of the industry as most custom compounders, including some of the largest, experienced declines in volume for the year.

Gross margins declined by 5.5% as a result of the inability in the North American market to completely pass along raw material price increases in natural and synthetic rubber as well as carbon black. The Company also absorbed approximately $1.1 million in U.S. purchased inventory write-downs due to the decline of the U.S. dollar. With the stabilization of exchange rates and the revised hedging strategy this will not be a recurring cost in 2004. Raw materials pricing will likely remain at the high end of their cycle for the immediate future and short-term margin improvements will come from efficiency and cost reduction initiatives. Some initiatives have been implemented and more are planned.

There are signs of improvement in demand, which is reflected by an increase in volume of 15% in the first two months of 2004 over the same period in 2003. While it may be premature to forecast a long lasting upturn in the industry, it is encouraging to see that our focus on increasing market share is being successful. We are the only major mixer that has publicly reported increases in volume in 2003 and, after a fourth quarter pause, this trend is continuing.

AIRBOSS-ACTON

Sales for the year declined by 1% compared to the previous year due to the effect of the extended lock-out which impacted sales of footwear and the translation of U.S. dollar sales at lower exchange rates.

The lower U.S. dollar has further accelerated the demise of commercial footwear manufacturing in Canada. The 20% decline in the U.S. dollar results in even cheaper Asian imports from countries which peg their currency to the U.S. dollar and only highly specialized items can now be competitively manufactured in North America. Accordingly, AirBoss is accelerating its plans to focus on military, firefighter and imported footwear.

The military products group, AirBoss-Defense, had an exceptional year as a result of new products such as gloves and gas masks and success with new customers such as the U.S. Navy. We expect this trend to continue in 2004. Sales for both N.B.C. protective wear and extreme cold weather military footwear are expected to increase.

The labour dispute, which lasted for two months resulted in additional costs to AirBoss-Acton of approximately $1.5 to $2 million. The losses arose from a combination of lost sales, unabsorbed manufacturing overheads and additional costs associated with temporarily transferring production to other AirBoss locations. There were further inefficiencies in both outsourced manufacturing and production by salaried staff.

Production efficiencies did not return to normal until the end of December. Substantial improvements are evident in 2004.

The industrial rubber products group was affected by the same challenges of high raw material costs, the rapid rise of the Canadian dollar and uneven market demand as the rubber compounding business. We expect some sales decline in the first quarter of 2004 but improved profitability as these challenges are addressed.

AIRBOSS RAILWAY PRODUCTS

Sales in U.S. dollars in 2003 have decreased by 14% in comparison to 2002 as a result of reduced fourth quarter expenditures by U.S. railroads. A shift in product mix has improved average margins slightly. Improvement is forecasted for 2004 as a result of a large increase in concrete tie installations by major railroads and higher revenues from successfully bid special project contracts. Sales of the AirBoss rail clips are expected to increase by as much as 30% over 2003.

On October 16, 2003 the Western District Court of Missouri, Western Division ruled against the Company in its ongoing patent litigation. The injunction and damages which were vacated by the Court of Appeal in February were re-instated. In the opinion of the Company and its counsel, there were significant errors of law in this decision and it has been appealed. The Company remains confident of ultimately being successful in defending against this action.

FINANCIAL

While 2003 was less than satisfactory from a financial performance standpoint, actions have been taken to prevent the re-occurrence of most of the one-time costs experienced. The implementation of a hedging program to protect against fluctuations of U.S. dollar purchased inventory, which was put in place at the end of June 2003, will prevent the repeat of $1.1 million of the exchanges losses. The signing of a four year labour agreement precludes the $1.6 million in unusual production variances incurred during the dispute. The write-down of certain footwear manufacturing equipment reflects not only market conditions contributed to by the lower U.S. dollar but an acceleration of the Company's plans to allocate capital to expand its growing military products group. This represents a total of $5.7 million in costs experienced in 2003 which are non-repetitive.

The Company anticipates reducing funded debt levels by approximately $5 to $10 million in 2004 of which half will come from profit from operations net of additional capital expansion requirements. The remainder should come from reduced working capital required for commercial footwear.

OUTLOOK

All three of our main product groups have experienced a strong increase in demand in the first two months of 2004. The stabilization of exchange rates during this period has also been beneficial. We expect margins in the rubber compounding business to remain at cyclical low levels as the industry absorbs the higher raw material costs. There is no indication that these prices will abate in the near term. Increased volumes and overhead cost reductions will be the main drivers of increased profitability in this business. Opportunities for geographical and strategic expansion will also be fully explored.

We anticipate the rapid growth in the military protective wear business to continue in 2004 as the Company's reputation as a market leader in this field becomes more firmly entrenched in North America.

The railway products business is also going to face opportunities with the anticipated increase in the use of concrete and composite railway ties.

2003 has been a difficult year in the rubber products industry and in dealing with the rapid appreciation in the Canadian dollar. Challenges will not be absent from the upcoming year but if the demand growth experienced at its onset is sustained, 2004 should prove to be a significant improvement over 2003. We will continue to focus on achieving our long term goals of filling our rubber compounding capacity in Kitchener, capitalizing on our position as a world leader in the production of military protective wear, growing our profitable railway products business, and looking for strategic opportunities to grow our businesses and enhance profitability.

We would like to express our appreciation to our employees for their hard work over the last year and to our directors for their participation and guidance. The support of shareholders in the last year has been appreciated and we are optimistic that they will 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 February 21, 2004 and should be read in conjunction with our Consolidated Financial Statements and Notes prepared in accordance with Canadian generally accepted accounting principles.

AirBoss Forward-Looking Statement Disclaimer – *This report contains forward-looking statements, which reflect management's best judgement 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 of the Company's annual report, and other risks detailed in filings with the Ontario Securities Commission. Forward-looking information provided pursuant to the safe harbour established by recent securities legislations 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. 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 except per share amounts)	**2003**	2002	2001
Net sales	**$ 175,870**	$ 182,685	$ 169,201
Net earnings (loss)	**(4,310)**	3,557	3,218
Net earnings (loss) per share – Basic	**(0.19)**	0.16	0.18
– Diluted	**(0.19)**	0.16	0.17
Total assets	**119,260**	128,276	130,903
Demand loan	**13,835**	11,944	11,681
Current portion of term loan and other debt	**24,642**	3,777	4,080
Long-term financial liabilities	**–**	24,006	28,995
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, and supplies a diverse group of rubber products manufacturers. Its rubber mixing facilities are located in Kitchener, Ontario and Acton Vale, Quebec. Rubber compounds are utilized in many industries, the largest being tire, but also in automotive, conveyor-belting, footwear and milling, to name a few. AirBoss maintains ISO certifications and AirBoss Rubber Compounding is one of few rubber compounders in North America who are approved suppliers to the major tire companies. AirBoss also sells its own proprietary recipes which can be customized to meet a number of industrial requirements. AirBoss provides product development and customer support expertise from state-of-the-art laboratory facilities in Kitchener.

The Company is a major consumer of natural and synthetic rubber and carbon black, a petroleum derivative, which are sourced on world commodity markets. As a North American-wide supplier, AirBoss sells in both Canadian and U.S. currencies.

Railway and Distribution – The Railway and Distribution segment is comprised of AirBoss Railway Products Inc. of Kansas City, Missouri and AirBoss Polymer Products Inc. of South Haven, Michigan. The railway division engineers, develops and sells railway fastening systems and is a major supplier of these systems to the largest railroads in the USA. AirBoss Polymer Products assembles and distributes specialty tires and tire components in North America.

Acton and Other – This segment includes Acton International Inc., AirBoss Moulded Products division and AirBoss of America's clip manufacturing joint venture. Acton International Inc. is the majority member of this segment representing over 95% of net segment sales. The Company, located in Acton Vale, Quebec, is a world leader in the development of military, nuclear, biological, chemical ("N.B.C.") protective wear and sells its products to over twenty countries. When acquired in 1999, its N.B.C. focus included primarily footwear but has since been expanded to encompass gloves, gas masks and other products. AirBoss-Acton is also a producer and marketer of specialty protective wear including fire-fighter boots. Over the years, AirBoss-Acton has produced commercial footwear; however, most North American retailers and manufacturers have transferred their production and sourcing to Asia rendering domestic, non-differentiated production uncompetitive. Accordingly, AirBoss-Acton has steadily focused its products to special-purpose applications.

Acton International Inc. is also a producer of value-added rubber compounds typically used in specialized markets. By further processing the compounds, for example, by applying fabrics to them, it has become a significant supplier to the snowmobile tread industry. It also supplies value-added rubber to the military for specialized applications.

RESULTS OF OPERATIONS – 2003 compared to 2002

SALES

The Company was significantly affected by the rapid and unforeseen devaluation of the U.S. dollar. Net sales for the year ended December 31, 2003 declined by $6.8 million from $182.7 million to 175.9 million or 4%. The average exchange conversion fell from $1.57 in 2002 to $1.40 in 2003. If 2002 U.S. dollar-denominated sales were restated to $1.40, sales would instead have increased $5.4 million or 3% from a restated level of $170.5 million.

		Engineered Products		
($000)	**Rubber Compounding Operations**	**Railway & Distribution**	**Acton & Other**	**Total**
Net Sales – 2003	$ 93,959	$ 23,710	$ 58,201	**$ 175,870**
– 2002	92,661	30,568	59,456	**182,685**
Increase (decrease) $	1,298	(6,858)	(1,255)	**(6,815)**
Increase (decrease) %	1%	(22%)	(2%)	**(4%)**

($000)	**Estimated impact of Foreign Exchange on Revenue[(1)]**
Rubber Compounding	$ (5,477)
Engineered Products – Railway and Distribution	(3,333)
– Acton and Other	(3,416)
	$ (12,226)

[(1)]Calculated by converting 2002 actual sales to average value based upon 2003 exchange rates for U.S. $

Rubber Compounding – Sales volumes in pounds increased by 3% to 123 million pounds compared to 2002. This resulted in only a 1% increase in sales as price increases to recover raw material increases were more than offset by the lower translation of U.S. dollar sales.

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

Sales to U.S.-based customers represented 62% of pounds shipped in 2003. The split between U.S. dollar invoiced and Canadian dollar invoiced sales is significant to the business in recent months as it provides a partial hedge with the purchase of raw materials, nearly all of which are purchased in U.S. dollars.

The rubber industry is currently going through a cyclical downturn and this has affected the rubber compounding segment of the industry. Rubber consumption statistics for North America are expected to show a decline for the second consecutive year – something which has not occurred in the previous 20 years. AirBoss was one of the few major compounders to add volume during 2003. Customer groups which showed strength in demand for our products included fork lift tire, belting and automotive part manufacturers.

Railway and Distribution – Sales declined by $6.9 million of which $2.9 million was related to currency translation. The remaining $4.0 million was due to a reduction in the number of special projects involving concrete ties completed by railways during the year and the decline in sales of low-margin non-core products such as cast tie plates.

Both special project business and the use of concrete ties is expected to increase in 2004 and this should benefit sales.

The evaluation of new rail fastening products developed by the Company which reduce track construction time is continuing and is not expected to significantly impact sales in 2004.

Acton and Other – Sales declined by $1.3 million or 2% due to lower currency translation of U.S. dollar-denominated sales of military protective wear and certain other industrial rubber products. Other offsetting changes in the year include an increase in military product sales of $6 million due to the introduction of N.B.C. gloves and gas masks and due to increased military demand for protective products, a decrease in commercial footwear of $4 million and a decrease in industrial rubber products of $2 million affected by reduced demand for supplied winter recreational applications.

The decline in commercial footwear sales resulted from the loss of sales during the labour dispute, competition in the consumer footwear styles from Asian imports, and a poor 2002/2003 winter sales season in the mid-western Canada and the United States which resulted in excessive inventory at the retail level. A stronger 2003/2004 winter season and the filling of back orders not shipped due to the work stoppage has increased orders in 2004.

GROSS MARGINS

Gross margins for the year ended December 31, 2003 decreased $9.6 million from $30.9 million to $21.3 million and from 16.9% to 12.1%.

		Engineered Products		
($000)	**Rubber Compounding Operations**	**Railway & Distribution**	**Acton & Other**	**Total**
Gross Margins – 2003	8,563	4,629	8,124	**21,316**
– 2002	13,549	5,439	11,889	**30,877**
Increase (decrease) $	(4,986)	(810)	(3,765)	**(9,561)**
% of net sales – 2003	9.1%	19.5%	14.0%	**12.1%**
– 2002	14.6%	17.8%	20.0%	**16.9%**

Rubber Compounding – The currency exchange portion of the loss in margin was approximately $1.1 million due to the write down of U.S. dollar purchased inventories in the first six months of the year. The majority of the remaining decline is attributable to significant increases in the cost of raw materials such as natural rubber, synthetic rubber and carbon black. Natural rubber prices, for example, ranged from approximately U.S. $0.35 in December 2002 to as high as U.S. $0.72 during 2003. Synthetic rubber and carbon black prices were less volatile, being significantly linked to world oil prices but they too rose on average at least 30%. While there is traditionally a lag in adjusting sales prices to match raw material price changes, the expected recovery of cost increases in 2004 is made more difficult by the size of the increases and the general decline in rubber consumption which has created an increasingly price sensitive environment.

Railway and Distribution – Gross margins declined by $0.8 million. Approximately $0.6 million of the reduction is attributed to currency translation for the U.S.-based operations and $0.4 million is volume related. This was offset by cost reductions from the reorganization of distribution operations in 2002.

Acton and Other – Gross margins in the Acton and Other segment declined by $3.8 million during the year. Of this amount it is estimated that $1.6 million is attributed to additional costs and inefficiencies associated with the labour dispute which lasted for slightly over two months. The remaining margin loss is a combination of higher raw material costs in the industrial rubber products group and exchange losses on fixed price U.S. dollar contracts for military products.

EXPENSES

($000)	Rubber Compounding Operations	Engineered Products		Corporate Inter-Company Elimination	Total
		Railway & Distribution	Acton & Other		
Operating expenses[1] – 2003	6,980	3,710	14,367	1,770	**26,827**
– 2002	7,550	4,166	11,698	1,814	**25,228**
Increase (decrease)	(570)	(456)	2,669	(44)	**1,599**
Adjusted for special charges[2]	(570)	130	(368)	(44)	**(852)**

[1]Operating expenses include total operating expenses, interest expense on demand loan and long-term debt, and, other expense.
[2]Expenses include a long-lived asset impairment charge in Acton & Other in 2003 of $3,037 and a reorganization charge in Railway & Distribution in 2002 of $586.

Operating expenses, excluding charges for asset impairment and reorganization in 2003 and 2002 respectively, declined by $0.9 million of which approximately $0.3 million was directly related to the foreign currency translation of U.S.-based operating expenses.

Rubber Compounding – Operating expenses consisting of sales, administration and product research remained constant at 6% of net sales. The segment realized an exchange gain of approximately $600 on its excess of U.S. liabilities over U.S. accounts receivable. The Company endeavors to maintain a company-wide balanced position on currency although individual segments may record gains or losses. Accordingly, the Railway and Distribution and Acton and Other had losses.

Railway and Distribution – Expense reductions of approximately $0.2 million were achieved by the reorganization of the distribution unit and move to a new distribution complex. The combined railway and distribution expenses were reduced by the impact of the foreign currency translation of operating expenses approximating $0.3 million since they are U.S.-based. However, the loss on translation of the U.S. dollar-denominated net assets offset these improvements.

Acton and Other – Expenses adjusted for the asset impairment charge of $3.0 million declined $0.4 million. AirBoss-Acton significantly reduced administrative, sales and marketing expenses approximating $0.8 million. Part of this reduction is reduced commissions due to commercial footwear sales decline. These cost savings were offset by exchange losses on U.S. dollar accounts receivable.

Other Expense – Other expense of $0.5 million is comprised of foreign currency translation loss of $0.6 million offset by $0.1 million in incidental income.

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

RESULTS OF OPERATIONS – 2002 compared to 2001

SALES

Net sales for the year ended December 31, 2002 increased $13.5 million or 8% to $182.7 million over the prior year. All core businesses experienced growth. The rubber compounding division achieved considerable success in replacing O.E.M. tire compound volumes, lost in late 2001 due to tire production cutbacks, with new volumes to a more diversified customer base. Acton International sales grew 6% overall with gains in its military protective wear and industrial divisions offsetting decreases in sales of winter related footwear. AirBoss Railway Products sales increased by 4% due to increased sales of metal fastening clips.

GROSS MARGINS

Gross margins for the year ended December 31, 2002 increased $1.0 million or 3.3% over the prior year but fell to 16.9% from 17.7% as a percentage of sales. Margins were adversely affected by increasing raw material costs, aggressive pricing due to competitive markets, and higher than expected energy costs.

The Acton division made considerable progress in improving its margins by rationalizing and outsourcing selected footwear products to cost-competitive foreign manufacturers, by reducing production inefficiencies, and by increasing the proportion of military product sales. The Railway division experienced a decline in margins due to a change in product mix.

EXPENSES

Operating expenses excluding re-organization costs, declined as a percent of sales from 12.7% to 11.8%. In general, increased freight costs accounted for increased distribution costs while cost containment efforts and lower legal expenses reduced general and administrative costs. Product research expenses declined as costs incurred in the development of new military protective products have been capitalized and will be either recovered under the terms of contracts or charged to product costs.

In 2002, the Company completed the re-organization of its AirBoss Polymer Products subsidiary converting it to an assembly and distribution centre for the AirBoss segmented tires. Costs of the re-organization included the write-off and disposal of the previous remaining assets associated with the abandoned manufacturing facility.

OTHER EXPENSE

Other expense represents foreign currency translation losses in 2002. In 2001, the other income was substantially comprised of $150 in foreign exchange gains, $354 in incidental rental income and $426 in one-time lease termination income related to a rental agreement where the income had been prepaid, was non-refundable and had been deferred and amortized systematically to other income over the occupancy period.

LONG-LIVED ASSET IMPAIRMENT – 2003 compared to 2002

In 2003, AirBoss reviewed the results of its AirBoss-Acton commercial footwear manufacturing facility and determined that a write-down of the book value of commercial footwear production equipment by $3.0 million to appraised fair market value was required. This adjustment reflects the acceleration of a strategy by AirBoss to import commercial footwear and concentrate production of footwear in the military and fire-fighter sectors. In recent years the manufacture of commercial footwear in North America has become less and less profitable. The rapid decline in the U.S. dollar has exacerbated this situation by making products imported from China even cheaper in price.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operations – AirBoss generated $3.3 million in operating cash flows before changes in working capital representing a $6.1 million decline over 2002. The primary cause of the decline was the reduction in net income to a net loss of $1.3 million, after removing the effect of the asset impairment charge, compared to $3.6 million in 2002. The rapid devaluation of the U.S. dollar combined with the escalation of raw material prices and the lost sales and other costs associated with the labour disruption in its Acton subsidiary were the most significant contributors to this outcome.

In addition to the above, additional amortization of $0.7 million offset by changes in future income taxes of $1.4 million and a deferred foreign exchange gain of $0.6 million represent the remaining significant changes in cash flows from operations for 2003 as compared to 2002.

Non-cash working capital – Non-cash working capital reductions of $3.1 million funded the purchase of capital assets and reduction of debt. Accounts receivable declined by $3.8 million of which over $2.0 million was in AirBoss Rubber Compounding, primarily because of the difference in closing exchange rates on U.S. dollar-denominated receivables. The balance was due to the reduction in fourth quarter sales in AirBoss-Railway due to fewer special projects. AirBoss-Acton accounted for $2.5 million of the $2.7 million inventory decline with the majority resulting from a reduction in footwear finished goods due to the labour dispute.

The fall labour disruption in Acton prevented the manufacture of sufficient footwear for the winter season. The unexpectedly severe winter conditions accelerated the depletion of the stock further and generated backorders being filled in 2004.

The decrease in accounts payable and accrued liabilities reflects a number of issues, with foreign exchange on U.S. dollar-sourced materials and reduced manufacturing being the largest components.

The following is a summary of cash provided by (used for) changes in working capital balances:

Provided by (used in)	**2003**	2002
Accounts receivable	$ 3,776	$ (1,684)
Inventories	2,740	(3,677)
Income taxes payable	(1,225)	1,360
Prepaid expenses	363	370
Accounts payable and accrued liabilities	(2,518)	4,103
	$ 3,136	**$ 472**

Working capital requirements will be increased by the growth of volume being experienced by the rubber compounding division. This increase could be as much as $5 to $7 million over December 31, 2003 requirements. While the Company has substantial unused credit facilities, a major portion of this increase will be offset by a reduction in working capital necessary for the commercial footwear.

Financing – During the second quarter ended June 30, 2003, the Company negotiated amendments to certain financial covenants pertaining to its operating line of credit of $27 million and term loan of $25 million. The operating line of credit bears interest at the Bank's Canadian or U.S. prime rate plus 0.5% to 0.875%. The fee charged for bankers' acceptances is the Bank Stamping Fee plus 1.0% to 1.5%. The term debt bears interest at 7.89%.

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

The fourth quarter was materially affected by certain events and the results of operations of the Company were in a loss position, thereby triggering a violation of two covenants affecting both the term loan and the operating line of credit. These events included a disruptive and costly labour dispute in AirBoss-Acton, a decline in the sales of both AirBoss Rubber Compounding and AirBoss-Railway and the continued decline of the U.S. dollar.

The term lenders have agreed to waive the breaches of the covenants at December 31, 2003 and for the first fiscal quarter of 2004. The Company's covenants are based on a four quarter trailing EBITDA calculation and accordingly anticipates that it could be offside through the first 3 quarters of 2004. Therefore, because neither lender is in a position to approve a waiver for one year, the Company is required by Canadian GAAP to reclassify the $20.5 million long-term portion of the loan as a current liability until the lenders have lost the right to demand repayment. The reclassification of the long-term portion of the term loan to current creates a working capital deficiency.

The outlook for 2004 appears much improved in the first two months of 2004 with increased demand being experienced in Rubber Compounding, a stable work force in Acton, increased production efficiencies, and a stabilized exchange rate.

Capital expenditures – Capital expenditures included a mix of new product, cost reduction, and maintenance projects. Of the $4.1 million spent, $2.1 million and $1.9 million were spent in AirBoss Rubber Compounding and AirBoss-Acton, respectively. AirBoss Rubber Compounding spent approximately $0.9 million to refurbish and upgrade its K-7 mixer. The remaining funds were spent to enhance the remaining four mixers and the development laboratory and to maintain the buildings and ancillary equipment.

AirBoss-Acton expenditures included in excess of $0.6 million for equipment dedicated to the $12.7 million Nuclear, Biological and Chemical ("N.B.C.") footwear contract commencing delivery in 2004. In addition, $0.5 million was spent to maintain and upgrade mixers and to improve plant efficiency. With the excellent condition of the equipment in all facilities, the Company can maintain a lower level of investment in the next several years without compromising efficiency, quality or downtime. Purchases in 2004 will be funded through internally generated cash flows.

2002 compared to 2001 – Working capital decreased marginally to $18 million due to concerted efforts to manage accounts receivable collections and supplier payments. Operating cash flow before changes in non-cash operating working capital declined because of the reduction in income tax deferrals available.

The Company has invested approximately $1.0 million for the completion of the installation of equipment to produce N.B.C. protective gloves and gas-masks. An additional $2.5 million was spent for increased rubber extrusion capacity, chemical and rubber handling automation.

During the year, the Company initiated a claim for the recovery of purchase price of $1.9 million against the vendors of Acton International Inc. as provided by the terms of the purchase agreement (Note 8). The claim has been offset against notes payable taken back by the vendors. Total debt, after reflecting the offset of the $1.9 million claim, has been reduced by $5.3 million without recourse to external funding. The Company also possesses a $27.0 million operating line of credit, which is not fully utilized. Accordingly, the Company believes that near term cash requirements will continue to be funded through operations.

QUARTERLY INFORMATION

(thousands except per share amounts)

2003 Quarter Ended	Sales	Net Earnings (loss)	Net Earnings Per Share Basic	Net Earnings Per Share Diluted
December 31	$ 34,930	$ (5,723)	$ (0.25)	$ (0.25)
September 30	45,301	133	0.01	0.01
June 30	47,123	608	0.03	0.03
March 31	48,516	672	0.03	0.03

(thousands except per share amounts)

2002 Quarter Ended	Sales	Net Earnings (loss)	Net Earnings Per Share Basic	Net Earnings Per Share Diluted
December 31	$ 45,556	$ 684	$ 0.03	$ 0.03
September 30	47,924	1,026	0.05	0.05
June 30	45,497	1,093	0.05	0.05
March 31	43,708	754	0.03	0.03

During the fourth quarter ended December 31, 2003, the Company breached certain debt covenants, described under “Financing”.

Results for the fourth quarter ending December 31, 2003 include an asset impairment charge related to the commercial footwear business of AirBoss-Acton of $3,037 or $0.13 per share before tax. In addition, AirBoss-Acton suffered a labour disruption from September to early November which resulted in significant manufacturing inefficiencies, start-up, outside service costs and loss of revenue particularly in commercial footwear.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following table summarizes as of December 31, 2003 certain of our long-term contractual obligations and commercial commitments for each of the next five years and thereafter:

	Payments Due In						
($000)	**2004**	**2005**	**2006**	**2007**	**2008**	**Thereafter**	**Total**
Term debt	$ 3,000	$ 3,000	$ 17,500	$ –	$ –	$ –	$ 23,500
Operating leases	277	193	195	149	145	365	1,324
Promissory note and discounted liability	1,143	–	–	–	–	–	1,143
Total	**$ 4,420**	**$ 3,193**	**$ 17,695**	**$ 149**	**$ 145**	**$ 365**	**$ 25,967**

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements at December 31, 2003.

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

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

In 2003, the Company adopted the following new accounting standards as a result of changes to Canadian generally accepted accounting principles ("GAAP"):

Impairment of Long-Lived Assets – On January 1, 2003, the Company prospectively adopted the new accounting pronouncement, "Impairment of Long-Lived Assets," which establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets. Previously, the impairment of long-lived assets was measured as the difference between the carrying value of the asset and the future undiscounted net cash flows expected to be generated by the asset. Under the new pronouncement, described above, this measurement is used to determine if impairment has occurred, and the amount of impairment is measured as the difference between the carrying value of the asset and its fair value, calculated using quoted market price or discounted cash flows. As noted above, the Company has recorded an impairment in connection with the commercial footwear manufacturing assets at December 31, 2003 amounting to $3.0 million in connection with the above standard (see Note 15).

RECENT ACCOUNTING DEVELOPMENTS

GAAP Hierarchy – Until now, there has been no clear definition of the order of authority for the source of GAAP. As a result, the Canadian standard setters have issued new standards that explain more clearly what constitutes Canadian GAAP and the sources of Canadian GAAP, which are described in Note 1(n) to the Consolidated Financial Statements. This standard is effective for the Company's 2004 fiscal year, and results in "industry practice" no longer being a justification for a particular accounting policy. The Company is currently evaluating the impact of the adoption of the new standards on its Consolidated Financial Statements.

Asset Retirement Obligations – In March 2003, The Canadian Institute of Chartered Accountants' ("CICA") issued Handbook Section 3110, "Asset Retirement Obligations". The standard provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of a tangible long-lived asset that result from acquisition, construction, development or normal operations. The standard requires the Company to record the fair value of a 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 standard describes the fair value of a liability for an asset retirement obligation as the amount at which that liability could be settled in a current transaction between willing parties, that is, other than in a forced or liquidation transaction. The Company is subsequently required to allocate that asset retirement cost to expense using a systematic and rational method over the asset's useful life. This standard is effective for the Company's 2004 fiscal year. The Company is currently evaluating the impact of the adoption of this new standard on its Consolidated Financial Statements.

Hedging Relationships – As more fully described in Note 1(n) to the Consolidated Financial Statements, effective January 1, 2004, Canadian GAAP will require the Company to maintain detailed documentation regarding any derivative financial instruments in order to account for any derivative instruments as hedges. Further, the Company will be required to assess whether each hedging relationship is effective, both at its inception and on an ongoing basis.

Revenue Recognition – New accounting pronouncements were introduced under Canadian GAAP regarding the timing of revenue recognition, which are described in Note 1(n) to the Consolidated Financial Statements. Effective January 1, 2004, to the extent the Company has bundled sales arrangements with multiple products or services, these arrangements will be divided into separate units of accounting if specific criteria are met. The separate units will then be recognized as revenue only when specific revenue criteria have been met, based on each unit's relative fair value. The Company is currently evaluating the impact of the new pronouncements on its Consolidated Financial Statements.

Stock-based Compensation – Effective January 1, 2004, Canadian GAAP will require companies to estimate the fair value of stock-based compensation to employees and to expense the fair value over the estimated useful life of the options. As a result, in 2004, the Company will expense the fair value of options granted to employees when they are granted as the options under the current stock option plan vest upon issuance. The estimated impact of adopting this accounting standard in 2004 is dependent upon future issuances of stock options from the stock option plan.

Accounting Guideline 15, Consolidation of Variable Interest Entities – As detailed in Note 1(n) to the Consolidated Financial Statements, effective January 1, 2005, the Company will be required to consolidate "variable interest entities". The Company does not expect that Accounting Guideline 15 will have an impact on its financial position or results from operations.

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, a reduction in the carrying value of our assets related to the commercial footwear production was required at December 31, 2003. 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 4 to the Consolidated Financial Statements.

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

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 an 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 the 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 its 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, we interpret 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 our 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)	**2003**	2002
Base tax	**$ (1,750)**	$ 1,793
Large corporations tax	**196**	224
Foreign tax differential	**51**	70
Ontario tax rate increases	**246**	–
Tax recoveries	**(261)**	–
Future tax valuation provision	**365**	–
Other	**(48)**	5
Total	**$ (1,201)**	$ 2,092

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 trends. In addition, our 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 footwear 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 financially and in terms of personnel, than the Company and has long-standing relationships with the Company's prospective customers and 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. 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.

Impact of Economic Cycle – The demand for the products produced by the Company 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 and are themselves 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. Many of the goods and commodities carried by the railway companies experience cyclical demand. If there is an economic slowdown or recession in North America or the other markets in which the Company intends to expand, the volume of rail shipments carried by the company 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 the 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 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 increased 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% increase in the cost of its most critical raw materials based upon purchases made in 2003 (million):

Increase (decrease)	Earnings before tax
Natural rubber	$ (2.0)
Synthetic rubber	(1.5)
Carbon black	(1.6)

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. The Company also builds its commercial footwear inventory, consisting primarily of boots, during the first half of the year for delivery to retailers for their fall and winter sales during the last half of the year. The volume of these sales is largely dependent on weather conditions.

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

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 approximately 39% and 35% of the Company's sales for the years ended December 31, 2003 and 2002, 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 Company remains committed to continuous maintenance and upgrading of its equipment. In recent years the Company replaced one of its final mixers with a new design CoFlow 4® mixer. It has continuously refurbished and upgraded its K-7 mixer and the Company has invested in powder and oil weighing systems, an automated strip piling system and updated laboratory equipment. To date, the critical equipment remains not only in a high state of repair, but is also technologically up to date so that the Company is able to ensure the reliability of supply at competitive prices and at a high quality standard.

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 N.B.C. protective gloves, military footwear and gas masks. Should additional equipment be required to fulfil 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 price 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.

The following table approximates the impact on the Company of a $0.10 increase in the value of one U.S. dollar in Canadian currency (million):

Increase (decrease)	Earnings before tax
Sales(1)	$ 8.1
Purchases(2)	(7.9)

(1)Based upon U.S. dollar-denominated sales in 2003.
(2)Based upon combined 2003 purchases and expenses.

Environmental – As the Company handles various chemicals and oils in its manufacturing process, the nature of the Company's business may expose it to risks of causing or being deemed to have caused environmental or other damages, such as the potential for harmful substances escaping into the environment and causing damage or injuries. The Company devotes resources to ensure that its operations are conducted in a manner that minimizes such risks. It also maintains insurance coverage considered reasonable by management. To date, no governmental 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. Management is not able to predict future costs, which may be incurred to meet environmental obligations.

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 judgement 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, will appeal 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 – Uneven U.S.-based demand for rubber compounds and high raw material prices will continue to be a concern in the short-term. Margins in the rubber compounding sector will continue to be under pressure as a result. The Company will require increased sales to improve profitability. Shipments of compounds during the first two months of 2004 increased by 15% over the same period in 2003.

In February 2003, the Company was awarded a U.S. $12.7 million contract to supply Nuclear, Biological and Chemical ("N.B.C.") footwear to the U.S. military. Production is scheduled to commence in the second quarter of 2004 after final approval of production samples with deliveries spread over a five or six-year period. We anticipate increased sales of N.B.C. gloves and other military protective wear.

The railway products division believes that an increase in concrete tie installations and special products will result in an increase in sales in 2004.

There will be additional costs involved in re-focusing footwear production away from commercial and consumer products towards military rubber products. This move should, however, provide an additional $5 to $10 million of working capital to be employed in more profitable operations.

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, 2003 and 2002 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.

R.L. Hagerman, *President*   **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, 2003 and 2002 and the consolidated statements of earnings (loss), 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, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada, February 20, 2004

Consolidated Balance Sheets

(thousands)

As at December 31	2003	2002
ASSETS		
Current assets:		
Accounts receivable	$ 23,408	$ 27,184
Inventories (Note 3)	24,286	27,026
Income taxes receivable	623	–
Prepaid expenses	755	1,118
	49,072	55,328
Capital assets (Note 4)	50,446	54,088
Goodwill (Note 5)	16,620	16,620
Other assets (Note 6)	3,122	2,240
	$ 119,260	$ 128,276
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand loan (Note 7(a))	$ 13,835	$ 11,944
Accounts payable and accrued liabilities	18,238	20,756
Income taxes payable	–	602
Current portion of term loan and other debt (Notes 1(a), 7(b), 8)	24,642	3,777
	56,715	37,079
Term loan (Note 7(b))	–	23,500
Other debt (Note 8)	–	506
Future income tax liability (Note 11)	9,690	10,257
Accrued post retirement benefit liability (Note 13)	834	615
Shareholders' equity:		
Share capital (Note 9(a))	38,405	38,393
Contributed surplus (Note 9(b))	143	143
Retained earnings	13,473	17,783
	52,021	56,319
	$ 119,260	$ 128,276

Commitments and contingencies (Notes 12 and 16).

See accompanying notes to consolidated financial statements.

On behalf of the Board

Director

Director

Consolidated Statements of Earnings (Loss) and Retained Earnings

(thousands except per share amounts)

Year ended December 31	2003	2002
SALES	**$ 175,870**	$ 182,685
Cost of sales	**154,554**	151,808
Gross margin	**21,316**	30,877
EXPENSES:		
General and administrative	**8,762**	9,315
Selling, marketing and distribution	**10,314**	11,075
Product research	**1,376**	1,197
Asset impairment and reorganization expense (Note 15)	**3,037**	586
Total operating expenses	**23,489**	22,173
Earnings (loss) from operations	**(2,173)**	8,704
Interest expense – Demand loan	**(755)**	(785)
– Long-term debt	**(2,037)**	(2,185)
Other expense	**(546)**	(85)
Earnings (loss) before income taxes	**(5,511)**	5,649
Income tax expense (recovery) (Note 11)	**(1,201)**	2,092
Net earnings (loss)	**(4,310)**	3,557
Retained earnings, beginning of the year	**17,783**	21,226
Goodwill impairment (Note 1(c))	**–**	(7,000)
Retained earnings, end of the year	**$ 13,473**	$ 17,783
Net earnings (loss) per share – Basic	**$ (0.19)**	$ 0.16
(Note 10) – Diluted	**$ (0.19)**	$ 0.16

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(thousands)

Year ended December 31	2003	2002
CASH PROVIDED BY (USED IN):		
Operating Activities:		
Net earnings (loss)	$ (4,310)	$ 3,557
Items not affecting cash:		
Asset impairment charge (Note 15)	3,037	–
Amortization	5,550	4,839
Loss on disposal of capital assets	28	23
Future income taxes	(567)	863
Foreign exchange gain (Note 6)	(626)	–
Post-retirement benefits expense	219	207
	3,331	9,489
Changes in non-cash operating working capital balances		
Accounts receivable	3,776	(1,684)
Inventories	2,740	(3,677)
Income taxes payable	(1,225)	1,360
Prepaid expenses	363	370
Accounts payable and accrued liabilities	(2,518)	4,103
	3,136	472
	6,467	9,961
Investing Activities:		
Purchase of capital assets	(4,076)	(5,634)
Purchase of other assets (Note 6)	(1,240)	(1,280)
Proceeds from disposal of capital assets	86	90
	(5,230)	(6,824)
Financing Activities:		
Net increase in demand loan	1,891	263
Repayment of term debt	(3,000)	(3,000)
Repayment of other debt	(140)	(431)
Issuance of share capital	12	31
	(1,237)	(3,137)
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	$ 2,841	$ 3,489
Income taxes remitted (recovered) during the year	455	(175)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 2003 and 2002

(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.

At December 31, 2003, the Company is in violation of two of the covenants specified under the terms of the demand loan and term loan and, therefore, the lenders have the right to demand repayment of the demand loan and term loan (see Note 7). The lenders have not demanded repayment of these facilities and have provided the Company with a waiver of the violated covenants at December 31, 2003 and also for the first quarter of 2004. As required by EIC-59, "Long-Term Debt with Covenant Violations", the Company reclassified the long-term portion of the term debt, amounting to $20,500, to current at December 31, 2003. The reclassification of the long-term portion of the term loan to current creates a working capital deficiency. The consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In the event that the lenders do not renew their waivers until the violations are cured and demand repayment, the Company would have to obtain replacement financing. There is no certainty that the Company would be able to secure such financing.

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

Effective January 1, 2003, the Company adopted the new CICA Handbook Section 3063, "Impairment or Disposal of Long-Lived Assets" and the revised Section 3475, "Disposal of Long-Lived Assets and Discontinued Operations." These sections establish standards for recognizing, measuring and disclosing impairment for long-lived assets held for use, and for measuring and separately classifying assets available for sale.

Under the new standards, assets must be classified as either held for use or available for sale. 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 when quoted market prices are not available. For assets available for sale, an impairment loss is recognized when the carrying amount exceeds the fair value less costs to sell. Prior to January 1, 2003, the Company assessed and measured impairment by comparing the carrying amount to the undiscounted future cash flows the long-lived assets were expected to generate.

c) 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, to its carrying amount.

During the fourth quarters of 2003 and 2002, 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 2003 or 2002 as the reporting unit fair values exceeded carrying values.

During 2002, the Company adopted CICA issued Handbook Section 3062, "Goodwill and Other Intangible Assets". The adoption of Section 3062 required the Company to complete a transitional goodwill impairment evaluation within six months of adoption. The Company determined that there was no transitional goodwill impairment in the rubber mixing and railway reporting units. The Company determined that the book value of a reporting unit in the Acton and Other segment was in excess of fair value and therefore recorded an impairment charge of $7,000 to opening retained earnings as at January 1, 2002.

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 – Other assets include contract acquisition costs which are amortized over the life of the contract. In addition, 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) 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.

g) 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.

h) 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.

i) 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.

j) 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.

k) 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.

l) 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 (6 years in 2003; 7 years in 2002) until the maximum entitlement is achieved, imputed interest on the unfunded balance, and a provision for current service.

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 accrue actuarial gains or losses. The liability for the benefits will be accrued over the attribution period of twenty years.

m) Stock-based Compensation – The Company accounts for stock-based compensation using the settlement method. In addition, the Company provides disclosure of pro-forma net income and income per share information as if the Company had accounted for employee stock options utilizing the fair value method. For purposes of pro-forma disclosures, the estimated fair value of the options is recognized in income in the period the options are granted as they vest when granted. The Company has applied the pro-forma disclosure provisions to awards granted on or after January 1, 2002. The pro-forma effect of awards granted prior to January 1, 2002 has not been included.

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

	2003	2002
Risk-free rate	**3.96%**	4.97%
Dividend yield	**0%**	0%
Volatility factor of the expected market price of the Company's shares	**51%**	61%
Average expected option life – years	**5.0**	4.5
Weighted-average grant date fair value per share of options issued during the year	**$ 2.53**	$ 1.89
Pro-forma net earnings (loss)	**$ (4,810)**	$ 3,359
Pro-forma basic and diluted earnings (loss) per share	**$ (0.21)**	$ 0.15

For additional information regarding the Company's option plan, refer to Note 9(c).

In September 2003, the CICA amended Handbook Section 3870, "Stock-based Compensation and other Stock-based Payments", which established standards for recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, that call for settlement in cash or other assets or are appreciation rights that call for settlement by the issuance of equity instruments. The Company will adopt the revised standard requiring the accounting for stock-based compensation using a fair value based method of accounting beginning on January 1, 2004.

n) Recent Accounting Pronouncements

(i) Generally accepted accounting principles – In June 2003, the CICA released Handbook Section 1100, "Generally Accepted Accounting Principles". This Section establishes standards for financial reporting in accordance with Canadian GAAP, and describes what constitutes Canadian GAAP and its sources. This section also provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures when a matter is not dealt with explicitly in the primary sources of GAAP. The new standard is effective on a prospective basis beginning January 1, 2004. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

(ii) Asset retirement obligations – In March 2003, CICA issued Handbook Section 3110, "Asset Retirement Obligations". The standard provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of a tangible long-lived asset that result from acquisition, construction, development or normal operations. The standard requires the Company to record the fair value of a 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 standard describes the fair value of a liability for an asset retirement obligation as the amount at which that liability could be settled in a current transaction between willing parties, that is, other than in a forced or liquidation transaction. The Company is subsequently required to allocate that asset retirement cost to expense using a systematic and rational method over the asset's useful life. This standard is effective for the Company's 2004 fiscal year. The Company is currently evaluating the impact of the adoption of this new standard on its consolidated financial statements.

(iii) Hedging relationships – In November 2001, the CICA issued Accounting Guideline 13, "Hedging Relationships" ("AcG-13"), and in November 2002, the CICA amended the effective date of the guideline. AcG-13 establishes new criteria for hedge accounting and will apply to all hedging relationships in effect on or after January 1, 2004. Effective January 1, 2004, the Company will re-assess all hedging relationships to determine whether the criteria are met or not and will apply the new guidance on a prospective basis. To qualify for hedge accounting, the hedging relationship must be appropriately documented at the inception of the hedge and there must be reasonable assurance, both at the inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedging item. The Company is currently determining the impact of the guideline.

(iv) Revenue arrangements with multiple deliverables – In December 2003, the Emerging Issues Committee issued Abstract 142, "Revenue Arrangements with Multiple Deliverables", which the Company will apply prospectively beginning January 1, 2004. This Abstract addresses both when and how an arrangement involving multiple deliverables should be divided into separate units of accounting and how the arrangement's consideration should be allocated among separate units. The Company is currently determining the impact of adoption of this standard.

(v) Stock-based compensation – In 2003, the CICA amended Handbook Section 3870, "Stock-based Compensation and other Stock-based Payments", to require the recording of compensation expense on the granting of all stock-based compensation awards, including stock options to employees, calculated using the fair value method. The Company will adopt this standard on January 1, 2004, retroactively without restatement. If the Company were to use the Black-Scholes Option Pricing model for calculating the fair value of stock-based compensation, the Company would record a charge to opening retained earnings on January 1, 2004 of $0.7 million related to stock options granted on or after January 1, 2002 (Note 1(m)).

(vi) Consolidation of variable interest entities – In June 2003, the CICA issued Accounting Guideline AcG-15, "Consolidation of Variable Interest Entities" ("AcG-15"). AcG-15 addresses the consolidation of variable interest entities ("VIEs"), which are entities which have insufficient equity at risk to finance their operations without additional subordinated financial support and/or entities whose equity investors lack one or more of the specified essential characteristics of a controlling financial interest. AcG-15 provides specific guidance for determining when an entity is a VIE and who, if anyone, should consolidate the VIE. AcG-15 will be applied in the Company's year beginning January 1, 2005. The Company does not expect that AcG-15 will have an impact to its financial position or results from operations.

NOTE 2 – 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:	2003	2002
Revenues	$ 2,535	$ 3,211
Expenses	370	365
Net income (loss)	(352)	140
Current and long-term assets	1,208	2,163
Current and long-term liabilities	205	675
Advance from AirBoss of America Corp.	950	1,200
Cash flow from – operations	(251)	849
– investing activities	(3)	(94)
– financing activities	(250)	(330)

NOTE 3 – INVENTORIES

Inventories are comprised of the following:

	2003	2002
Raw Materials	$ 13,073	$ 13,798
Work-in-progress	2,975	3,401
Finished goods	8,238	9,827
	$ 24,286	$ 27,026

Notes *(continued)*

NOTE 4 – CAPITAL ASSETS

December 31, 2003	Cost	Accumulated Amortization	Net
Land	$ 2,500	$ –	$ 2,500
Buildings	9,393	1,918	7,475
Equipment	62,438	21,967	40,471
	$ 74,331	**$ 23,885**	**$ 50,446**

December 31, 2002	Cost	Accumulated Amortization	Net
Land	$ 2,500	$ –	$ 2,500
Buildings	9,187	1,369	7,818
Equipment	58,694	14,924	43,770
	$ 70,381	**$ 16,293**	**$ 54,088**

Amortization expense for the years ended December 31, 2003 and 2002 was $4,567 and $4,291, respectively.

During 2003, the Company reviewed the results of operations of its AirBoss-Acton commercial footwear manufacturing facility and determined that competition from Asian-produced products rendered domestic manufacture of certain commercial styles financially unviable. The Company has recorded an impairment charge of $3,037 to reduce the carrying value of the commercial footwear manufacturing assets to their appraised fair market value (see Note 1(b)).

NOTE 5 – GOODWILL

The terms of the purchase agreement of Acton International Inc. provided for a reduction of purchase price under certain performance guarantees, which have not been fulfilled. The reduction of purchase price net of recovery fees has been charged to the carrying value of the goodwill on purchase and offset to loans payable to the vendors (see Note 8).

	2003	2002
Balance, beginning of year	**$ 16,620**	$ 18,442
Adjustment to purchase price	**–**	(1,822)
Balance, end of year	**$ 16,620**	$ 16,620

NOTE 6 – OTHER ASSETS

Other assets are comprised of the following:

	2003	2002
Product development	**$ 3,150**	$ 2,304
Patents	**158**	152
Deferred financing	**562**	388
Other assets	**765**	349
	4,635	3,193
Accumulated amortization	**1,513**	953
	$ 3,122	$ 2,240
Amortization expense	**$ 983**	$ 548

During 2003, the Company entered into 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 $626 at December 31, 2003, 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 (2002 - $27,000).

The operating line of credit bears interest at the Bank's prime rate plus 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 0.5% to 0.875% per annum, with respect to loans denominated in U.S. currency. The fee charged for bankers' acceptances is Bank's Stamping Fee plus 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 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 $23,500 (2000 - $26,500) 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% annually (2002 - 7.64%), calculated monthly, and is repayable in monthly principal instalments of $250 plus interest with the balance of $15,000 repayable on October 15, 2006. At December 31, 2003, the Company was in violation of two of the covenants specified under the terms of the loan and, therefore, the lenders have the right to demand repayment (see note 1(a)). Accordingly, the entire amount of the term loan has been classified as a current liability at December 31, 2003. The lenders have not currently demanded repayment and have provided the Company with a waiver for the covenants that were in violation at December 31, 2003 and also for the first quarter of 2004.

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

2004	$	3,000
2005		3,000
2006		17,500
	$	**23,500**

NOTE 8 – OTHER DEBT

		2003		2002
Promissory notes – Acton International Inc.	**$**	**1,094**	$	1,094
Discounted liability		**49**		189
		1,143		1,283
Less current portion		**1,143**		777
	$	**0**	$	506

Other debt includes two promissory notes taken back by the vendors of Acton International Inc. The notes bear 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 is repayable on April 20, 2004.

Other debt includes a discounted liability of $49 (2002 - $189). The discounted liability bears interest at 8% per annum and is payable initially in 36 monthly instalments of $26 and, subsequently, in 24 monthly instalments of $13. Payments commenced May 22, 1999 and terminate 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, 2001	$ 38,362	22,499,423
Exercise of stock options – 2002	31	27,500
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

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.

c) Stock Options – The Company has reserved 2,563,800 shares for its stock option plan. Options vest when granted.

The plan provides for the following vested options, granted to directors and officers of the Company, which were outstanding at December 31, 2003 with a weighted average exercise price of $2.30.

Number of Options	**Exercise Price**	**Expiry Date**
475,000	$ 4.50	June 2, 2004
50,000	$ 2.05	August 12, 2005
921,000	$ 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
100,000	$ 2.30	April 16, 2008
2,101,000	**$ 2.30**	

	2003		2002	
Options	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Price Exercise**
Outstanding at beginning of year	**1,798,500**	**$ 2.29**	1,726,000	$ 2.39
Granted	**500,000**	**2.53**	205,000	1.89
Exercised	**(10,000)**	**1.12**	(27,500)	1.15
Expired	**(187,500)**	**2.93**	(105,000)	3.52
Outstanding and exercisable at end of year	**2,101,000**	**$ 2.30**	1,798,500	$ 2.29

NOTE 10 – EARNINGS (LOSS) PER SHARE

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

	2003	2002
Numerator for basic and diluted earnings (loss) per share:	$ (4,310)	$ 3,557
Denominator for basic and diluted earnings (loss) per share:		
Basic weighted average number of shares outstanding	22,533	22,504
Effect of stock options	548	384
Diluted weighted average number of shares outstanding	23,081	22,888
Basic earnings (loss) per share	$ (0.19)	$ 0.16
Diluted earnings (loss) per share	$ (0.19)	$ 0.16

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:

	2003	2002
Combined federal and provincial statutory income tax	$ (1,750)	$ 1,793
Change in the valuation allowance for future income tax assets	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	–
Federal large corporations tax	196	224
Foreign tax differential	51	69
Other	(48)	6
Total expense (recovery)	$ (1,201)	$ 2,092

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

	2003	2002
Current	$ (603)	$ 862
Future	(598)	1,230
	$ (1,201)	$ 2,092

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

	2003	2002
Future income tax assets:		
Non-capital income tax loss carry-forwards	$ 507	$ 999
Alternative minimum tax recoverable	365	330
Research and development expenses deducted for accounting purposes in excess of tax purposes	621	124
Future income tax deductions relating to long-term liabilities	284	228
	1,777	1,681
Less valuation allowance	(375)	(10)
	1,402	1,671
Future income tax liabilities		
Capital assets	(11,092)	(11,928)
Net future income tax liability	$ (9,690)	$ (10,257)

Notes *(continued)*

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 $1,180 available to offset future income taxes in the U.S. with no expiry and $235 in Canada expiring in 2010. The Company has scientific research and development expense carry-forwards to offset future income taxes in Canada of $1,867. The Company has recognized a future tax asset to the extent that the losses and scientific research and development costs are more likely than not to be realized.

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:

2004	$	277
2005		193
2006		195
2007		149
2008		145
Thereafter		365
	$	**1,324**

The Company has commitments to purchase raw materials in the normal course of business amounting to $1.5 million in 2004.

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.

NOTE 13 – POST RETIREMENT BENEFITS

a) Retirement Compensation Plan – The Company provides a defined benefit retirement compensation plan for designated employees. The plan provides for retirement compensation payments based upon the employees' years of service. The plan provides that it be unfunded until the occurrence of certain events including termination and change of control of the Company. Benefit obligations were actuarially determined in December 2002.

		2003		2002
Post retirement benefit obligation at beginning of year	**$**	**887**	$	770
Service cost		**71**		67
Interest cost		**62**		50
Post retirement benefit obligation at end of year	**$**	**1,020**	$	887
The Company's net benefit plan expense is as follows:				
Service cost	**$**	**71**	$	67
Interest cost		**62**		50
Amortization of past service benefit		**55**		55
	$	**188**	$	172

	2003	2002
Accrued post retirement benefit liability	$ 698	$ 512
Unamortized post retirement benefit obligation at end of year	$ 322	$ 375

Weighted average assumptions as of December 31

Discount rate	6.5%	6.5%

b) **Retirement Term Life Insurance Plan –** Certain employees are eligible for Company-paid post retirement term life insurance coverage determined by their years of service and age at time of retirement. The plan is unfunded. Benefit obligations were actuarially determined in January 2004.

	2003	2002
Post retirement benefit obligation at beginning of year	$ 447	$ 426
Service cost	7	7
Interest cost	28	28
Employer contribution	(27)	(26)
Experience loss	–	12
Post retirement benefit obligation at end of year	$ 455	$ 447

The Company's net benefit plan expense is as follows:

	2003	2002
Service cost	$ 7	$ 6
Interest cost	28	28
Amortization of transitional liability	25	24
	$ 60	$ 58
Accrued post retirement benefit liability	$ 136	$ 103
Unamortized benefit obligation at end of year	$ 319	$ 344

Weighted average assumptions as of December 31

Discount rate	6.5%	6.5%

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 Acton and Other segment produces rubber protective products, including footwear and gloves, and further processed rubber compounds. 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				
2003	**Canada**	**USA**	**Other**	**Total**	**Inter-Company**
Rubber compounding operations	$ 43,830	$ 49,937	$ 192	$ 93,959	$ 7,714
Engineered products					
Railway and distribution	188	23,386	136	23,710	14
Acton and other	26,097	29,848	2,256	58,201	5,592
	$ 70,115	**$103,171**	**$ 2,584**	**$175,870**	**$ 13,320**

Notes *(continued)*

2003	Rubber Compounding Operations	Engineered Products: Railway & Distribution	Engineered Products: Acton & Other	Corporate & Inter-Company Eliminations	Total
Sales	$ 101,674	$ 23,722	$ 63,794	$ (13,320)	$ 175,870
Cost of sales	93,111	19,093	55,670	(13,320)	154,554
	8,563	4,629	8,124	–	21,316
Operating expenses	6,980	3,710	11,330	1,770	23,790
Asset impairment	–	–	3,037	–	3,037
Earnings (loss) before income taxes	1,583	919	(6,243)	(1,770)	(5,511)
Income tax (recovery) expense					(1,201)
Net earnings (loss)					**$ (4,310)**
Assets employed – Canada	$ 62,793	$ –	$ 48,054	$ 360	$ 111,207
– USA	–	8,053	–	–	8,053
– Total	$ 62,793	$ 8,053	$ 48,054	$ 360	$ 119,260
Purchase of capital assets	$ 2,096	$ 53	$ 1,901	$ 26	$ 4,076
Amortization – Capital and other assets	1,922	565	2,748	315	5,550

2002	Sales excluding Inter-Company: Canada	Sales excluding Inter-Company: USA	Sales excluding Inter-Company: Other	Sales excluding Inter-Company: Total	Inter-Company
Rubber compounding operations	$ 41,950	$ 50,584	$ 127	$ 92,661	$ 5,622
Engineered products					
Railway and distribution	243	30,277	48	30,568	217
Acton and other	24,367	31,694	3,395	59,456	5,113
	$ 66,560	$ 112,555	$ 3,570	$ 182,685	$ 10,952

2002	Rubber Compounding Operations	Engineered Products: Railway & Distribution	Engineered Products: Acton & Other	Corporate & Inter-Company Eliminations	Total
Sales	$ 98,283	$ 30,783	$ 64,572	$ (10,953)	$ 182,685
Cost of sales	84,734	25,344	52,683	(10,953)	151,808
	13,549	5,439	11,889	–	30,877
Operating expenses	7,550	3,580	11,698	1,814	24,642
Reorganization expense	–	586	–	–	586
Earnings (loss) before income taxes	5,999	1,273	191	(1,814)	5,649
Income tax (recovery) expense					2,092
Net earnings (loss)					**$ 3,557**
Assets employed – Canada	$ 64,166	$ –	$ 52,487	$ 1,112	$ 117,765
– USA	–	9,384	1,127	–	10,511
– Total	$ 64,166	$ 9,384	$ 53,614	$ 1,112	$ 128,276
Purchase of capital assets	$ 2,951	$ 123	$ 1,977	$ 583	$ 5,634
Amortization – Capital and other assets	1,750	640	2,325	124	4,839

One customer represented 16% and 15% of total sales in 2003 and 2002 respectively. Five customers represented 39% and 35% of sales in 2003 and 2002 respectively.

NOTE 15 – ASSET IMPAIRMENT CHARGE AND RE-ORGANIZATION EXPENSES

During 2003, the Company reviewed the results of operations of its AirBoss-Acton commercial footwear manufacturing facility and determined that competition from Asian-produced products rendered domestic manufacture of certain commercial styles financially unviable. The Company has recorded an impairment charge of $3,037 to reduce the carrying value of the commercial footwear manufacturing assets to their appraised fair market value (see Note 4).

During 2002, the Company closed its tire production facility and moved to a new distribution facility from which it provides sales, tire assembly and distribution services for the AirBoss Moulded Products division facility and distribution services for Acton International Inc. Costs incurred in the re-organization include asset write-offs and relocation costs and lease termination fees related to the abandoned production facility.

NOTE 16 – 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 $4,243, 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 17 – 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 AND OFFICERS

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

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

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

Robert L. McLeish (1)(2)
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

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 12, 2004** at **4:30 pm** at the AirBoss corporate offices, Newmarket, Ontario.

AIRBOSS OF AMERICA CORP.

OFFICES

Canada

NEWMARKET — **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
Vice-President Finance:	Axel G. Breuer
Investor Relations:	Tracey L. Gauley

KITCHENER — **AirBoss Rubber Compounding**

Address:	101 Glasgow Street, Kitchener, Ontario, Canada N2G 4X8
Telephone:	519-576-5565
Facsimile:	519-576-1315
Divisional President:	Ben Stevens

SUBSIDIARIES

MONTREAL — **AirBoss-Acton**

Address:	881 Landry, Acton Vale, Québec, Canada J0H 1A0
Telephone:	450-546-2776
Facsimile:	450-546-3735
President:	François Soucy
Military Products Manager:	Earl Laurie
Sales Manager - Industrial Products:	Marcel Courtemanche

United States

MICHIGAN — **AirBoss Polymer Products, Corporation**

Address:	200 Veterans Boulevard, South Haven, Michigan, U.S.A. 49090
Telephone:	269-637-6356
Facsimile:	269-637-8955
President:	Gerald M. (Jerry) Van Vlack

MISSOURI — **AirBoss Railway Products, Inc.**

Address:	9237 Ward Parkway, Suite 206, 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.