AIRBOSS OF AMERICA CORP.

2004 Second Quarter Interim Report

	Six months ended June 30		Three months ended June 30	
(thousands, except per share amounts)	**2004**	2003	**2004**	2003
Net sales from continuing operations	**$ 94,882**	$ 91,243	**$ 50,196**	$ 45,640
Earnings before interest, taxes & amortization (EBITDA)(Note 1)	**6,851**	6,168	**3,862**	3,159
Interest	**1,394**	1,406	**696**	733
Income from continuing operations before income taxes	**3,176**	3,222	**1,902**	1,831
Net income	**1,564**	1,280	**973**	608
Net income per share from continuing operations				
- Basic	**$ 0.10**	$ 0.10	**$ 0.06**	$ 0.05
- Diluted	**0.10**	0.09	**0.06**	0.05
Net income per share				
- Basic	**$ 0.07**	$ 0.06	**$ 0.04**	$ 0.03
- Diluted	**0.07**	0.06	**0.04**	0.03
Cash flow before changes in non-cash working capital from continuing operations	**$ 6,387**	$ 5,306	**$ 3,722**	$ 3,165
Common shares outstanding (million):				
- Basic	**22.5**	22.5	**22.5**	22.5
- Diluted	**23.0**	22.5	**23.0**	22.5

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

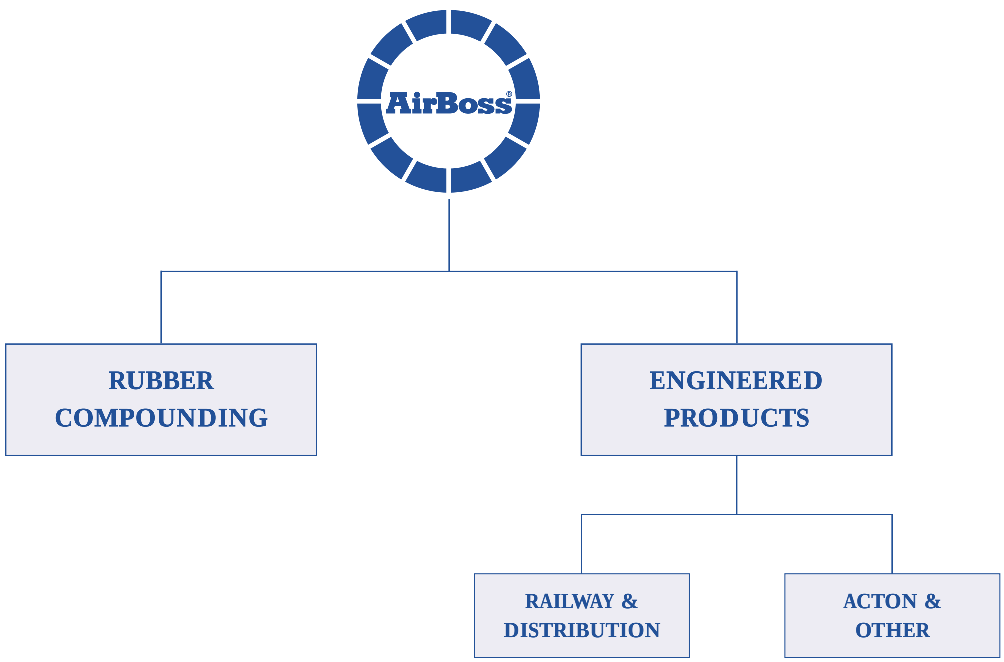
	Six months ended June 30		Three months ended June 30	
(thousands)	**2004**	2003	**2004**	2003
Income before income taxes	**$ 2,226**	$ 1,932	**$ 1,320**	$ 931
Interest	**1,394**	1,406	**696**	733
Amortization and loss on disposal of capital assets	**3,231**	2,830	**1,846**	1,495
EBITDA	**$ 6,851**	$ 6,168	**$ 3,862**	$ 3,159

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.



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Letter to Shareholders

Sales from continuing operations for the six-month period ended June 30, 2004 increased by 4% compared to 2003 and Net Income from continuing operations increased by 2%. Net Income increased 22% overall.

AIRBOSS RUBBER COMPOUNDING

The second quarter was characterized by both increased sales volumes over previous periods and high raw material prices. Volumes of compound shipped increased by 9% over the first quarter and by 33% over the same three-month period in 2003. This change was mainly due to increased orders from the Company's larger existing customers. Our forecasts are for this level of demand to continue for the remainder of the year.

Gross margins continue to be adversely affected by the unabated rise in raw material prices and the traditional industry lag in passing these increases on to customers. Prices were increased to most customers during the quarter but many did not take effect until June 1. Accordingly, earnings should be more reflective of the increased volumes over the second six months of the year.

AIRBOSS-ACTON

The Military Products Group had a strong second quarter with the finalization of significant orders for both CBRN gloves and boots. Production and shipment of these orders commenced during the quarter, however, the majority will be shipped in the second half of 2004. While orders in hand indicate that volumes for gloves, boots and gas masks will exceed last year, further increases are still anticipated prior to year-end. Production efficiencies, particularly with the injection-moulded gloves, have been excellent and production costs are slightly lower than anticipated.

The long-term development strategy to move away from commercial footwear to concentrate these manufacturing resources on military and firefighter boots is expected to be completed during the third quarter of 2004. While this is an end of an era for Acton it is a significant improvement in the allocation of assets to a rapidly growing and profitable sector.

The industrial rubber products manufacturing group had a solid first 6 months of the year as this group delivered positive results consistent with budgets.

AIRBOSS RAILWAY PRODUCTS

The US Court of Appeal hearing on the ongoing patent dispute is scheduled for early September with a ruling anticipated prior to year end. The removal of the restrictions on AirBoss selling the concrete tie pads is significant to this division from both a sales and profitability standpoint.

The higher Canadian dollar combined with increased steel prices has resulted in the reduction of the profitability of the Company's railway clip which is manufactured in a joint venture in Western Canada. A decision will be made on appropriate corrective measures to improve this situation by the end of the third-quarter.

OUTLOOK

We expect the increased volumes in our rubber compounding business to continue for the remainder of the year. Actions to recover raw material price increases that were taken towards the end of the quarter should have a greater impact on the third and fourth quarters and any further increases will have to be dealt with in a similar manner. There is cause for an optimistic outlook for this business due to the stabilizing of the industry in the last few months and the significant volume increase experienced during a turbulent period. Challenges remain, mainly with material costs, as oil prices, worldwide exchange rate fluctuations and increased Asian demand continue to impact everyone concerned in the rubber industry.

As with compounding business, we expect increases in the military products sales and profitability as greater than 50% of the projected sales for the year will be shipped in the second half of the year.

We believe that management's efforts to continue to cut less profitable portions of the business and to focus on expanding the profitable business units will continue to deliver improved results in the future.

P.G. Schoch
Chairman

Robert L. Hagerman
President and Chief Executive Officer

Management's Discussion and Analysis of Financial Condition and Results of Operations

SELECTED FINANCIAL INFORMATION

	Six Months Ended June 30		Three Months Ended June 30	
(thousands except shares and per share amounts)	**2004**	2003	**2004**	2003
Net sales – continuing operations	**$ 94,882**	$ 91,243	**$ 50,196**	$ 45,640
Net income – continuing operations	**2,216**	2,166	**1,372**	1,226
Net income	**1,564**	1,280	**973**	608
Net income per share – continuing operations				
- Basic	**$ 0.10**	$ 0.10	**$ 0.06**	$ 0.05
- Diluted	**0.10**	0.09	**0.06**	0.05
Net income per share - Basic	**$ 0.07**	$ 0.06	**$ 0.04**	$ 0.03
- Diluted	**0.07**	0.06	**0.04**	0.03
Cash flow before changes in non-cash working capital – continuing operations	**$ 6,387**	$ 5,306	**$ 3,722**	$ 3,165
Cash dividends declared	**$ 0.00**	$ 0.00	**$ 0.00**	$ 0.00

As at June 30	**2004**	2003
Total assets	**$ 126,917**	$ 129,174
Demand loan	**19,826**	13,216
Current portion of term loan and other debt	**23,096**	4,210
Long-term financial liabilities	**$ –**	$ 22,000

QUARTERLY INFORMATION

(thousands except share and per share amounts)

Quarter Ended	**Net Sales** Continuing Operations	**Net Income** Continuing Operations	**Net Income (Loss)**	Net Income Per Share Continuing Operations		Net Income Per Share	
				Basic	**Diluted**	**Basic**	**Diluted**
June 30, 2004	$ 50,196	$ 1,372	$ 973	$ 0.06	$ 0.06	$ 0.04	$ 0.04
March 31, 2004	44,686	843	591	0.04	0.04	0.03	0.03
December 31, 2003	30,933	(3,045)	(5,723)	(0.14)	(0.13)	(0.25)	(0.25)
September 30, 2003	39,471	233	133	0.01	0.01	0.01	0.01
June 30, 2003	45,640	1,226	608	0.05	0.05	0.03	0.03
March 31, 2003	45,603	940	672	0.04	0.04	0.03	0.03
December 31, 2002	40,287	686	684	0.03	0.03	0.03	0.03
September 30, 2002	41,514	1,179	1,026	0.05	0.05	0.05	0.05

RESULTS OF OPERATIONS – 2004 compared to 2003

During the second quarter ended June 30, 2004, the Company announced the discontinuation of the manufacture of commercial footwear to focus upon the manufacture and sale of specialized footwear for "First Response" and military needs. The comparative results of operations for the six month and three month periods ended June 30, 2004 and 2003 have been restated to present the results of the continuing operations separately.

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

2004 COMPARED TO 2003

Sales revenue for the six months and second quarter ended June 30, 2004 increased 4% and 10% respectively. The rubber compounding operations experienced significant volume increases. Translation of US dollar revenues and product mix issues contributed to lower revenues in the Railway & Distribution and Acton & Other segments respectively.

Six Months Ended June 30 ($000)	**Rubber Compounding Operations**	Engineered Products		**Total**
		Railway & Distribution	**Acton & Other**	
Net Sales – 2004	$ 59,653	$ 14,390	$ 20,839	**$ 94,882**
– 2003	49,073	15,704	26,466	**91,243**
Increase (decrease) $	10,580	(1,314)	(5,627)	**3,639**
Increase (decrease) %	22%	(8%)	(21%)	**4%**

Three Months Ended June 30 ($000)	**Rubber Compounding Operations**	Engineered Products		**Total**
		Railway & Distribution	**Acton & Other**	
Net Sales – 2004	$ 31,312	$ 7,741	$ 11,143	**$ 50,196**
– 2003	24,375	8,050	13,215	**45,640**
Increase (decrease) $	6,937	(309)	(2,072)	**4,556**
Increase (decrease) %	28%	(4%)	(16%)	**10%**

Rubber Compounding – Sales increased by 22% and 28% for the six and three month periods ended June 30, 2004 respectively compared to the previous year. Increased volumes with major customers, increased selling prices due to raw material increases and a generally favourable economic climate contributed to the increase.

Railway and Distribution – Because this segment's revenues are almost exclusively US dollar-denominated, foreign currency translation losses account for almost half of the revenue decline compared to the previous year. Fewer one-time railway construction projects in 2004, compared to 2003, account for the remainder.

Acton and Other – Sales decreased $5.6 million for the six-month period and by $2.1 for the three-month period compared to 2003. The timing of military shipments compared to 2003 accounts for most of the difference. 2004 military sales in total are expected to exceed 2003 levels. Orders received for CBRN protective boots for 2004 and 2005 from the U.S. military have exceeded expectations at the beginning of 2004 despite the cancellation of the order for "Mulo style" boots. As military sales are primarily US dollar-denominated, the decline in revenues during the first six months also reflects the strengthened Canadian dollar.

Sales of the discontinued commercial footwear operations continued to exceed 2003 levels due to the backlog created by the labour disruption in the third and fourth quarters of 2003 and to the severity of recent winter conditions.

GROSS MARGINS

Gross margins for the six months and second quarter ended June 30, 2004 increased $760 and $1,107 respectively due to volume gains in the Rubber Compounding Operations.

Six Months Ended June 30 ($000)	Rubber Compounding Operations	Engineered Products		Total
		Railway & Distribution	Acton & Other	
Gross margins – 2004	$ 6,276	$ 2,089	$ 5,088	**$ 13,453**
– 2003	4,270	3,063	5,360	**12,693**
Increase (decrease) $	2,006	(974)	(272)	**760**
% of net sales – 2004	10.5	14.5	24.4	**14.2**
– 2003	8.7	19.5	20.3	**13.9**

Three Months Ended June 30 ($000)	Rubber Compounding Operations	Engineered Products		Total
		Railway & Distribution	Acton & Other	
Gross margins – 2004	$ 3,159	$ 830	$ 3,144	**$ 7,133**
– 2003	1,675	1,622	2,729	**6,026**
Increase (decrease) $	1,484	(792)	415	**1,107**
% of net sales – 2004	10.1	10.7	28.2	**14.2**
– 2003	6.9	20.1	20.7	**13.2**

Rubber Compounding – The continued commodity price increases in rubber raw materials during 2004 have reduced unit gross margins below traditional levels. The overall growth in margin dollars and percent has been derived primarily from increased sales volumes resulting in improved overhead absorbtion. Price increases in the second quarter continue to lag additional raw material cost increases. The competitiveness of the marketplace is expected to continue to restrict producers' abilities to fully recover commodity cost inflation.

Railway and Distribution – Gross margins decreased $974 and $792 for the six-month and three month periods respectively compared to 2003. A sales mix favouring lower margin product sales, higher steel prices, and the reduction by the railways of one-time projects, compared to 2003, reduced both total dollar and percentage margins. The tire distribution operations recognized additional inventory provisions to reflect the rationalization of selected tire products.

Acton and Other – Gross margins decreased $272 for the six-month period and increased $415 for the three-month period ending June 30, 2004 compared to 2003. However, margins as a percentage of net sales increased in both periods. The shifting of expected military sales to the last half of 2004 is the primary cause of the margin decline. Margin improvements in industrial improved over 2003 but were offset by the lower military margins. During the second quarter, however, the shortfall of military sales was less pronounced so that both the military margins and the improved industrial margins contributed to a net increase.

Margins are expected to increase as higher margin military product sales increase during the last half of the year.

OPERATING EXPENSES

Operating expenses increased $806 and $1,036 respectively for the six month and three month periods ended June 30, 2004 compared to the same periods in 2003. Increased shipping costs associated with increased sales and the accelerated amortization of product development costs were the major factors affecting the expenses.

Six Months Ended June 30 ($000)	Rubber Compounding Operations	Engineered Products		Corporate & Inter-Company Elimination	Total
		Railway & Distribution	Acton & Other		
Operating expenses[1] – 2004	$ 4,441	$ 1,816	$ 2,773	$ 1,247	**$ 10,277**
– 2003	3,467	1,911	2,992	1,101	**9,471**
Increase (decrease)	974	(95)	(219)	146	**806**

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

Three Months Ended June 30 ($000)	Rubber Compounding Operations	Engineered Products: Railway & Distribution	Engineered Products: Acton & Other	Corporate & Inter-Company Elimination	Total
Operating expenses[1] – 2004	$ 2,326	$ 1,042	$ 1,216	$ 647	**$ 5,231**
– 2003	1,637	780	1,162	616	**4,195**
Increase (decrease)	689	262	54	31	**1,036**

[1]Operating expenses include total operating expenses, interest expense on demand loan and long-term debt, and, other expense.

Rubber Compounding – Operating expenses increased by $974 and $689 for the six months and three months ended June 30, 2004. Higher freight costs accounted for approximately 63% and 56% of the increases respectively. Foreign exchange losses net of cost improvements made up the balance. The division has taken steps to reduce operating costs and the benefits of these changes will become more significant in the second half of the year.

Railway and Distribution – Operating expenses decreased by $95 and increased by $262 for both the six months and three months ended June 30, 2004. Lower selling and general expenses were partially offset by increased product development amortization for the six-month period.

Acton and Other – Cost reduction measures initiated through the first and second quarters of 2004 reduced selling, general and administrative expenses compared to the six month and three month periods ending June 30, 2003. As well, costs were positively affected by foreign exchange rates and allocated interest costs when compared to 2003.

Interest Expense – Interest expense for the six month and three month periods ended June 30, 2004 were $1.4 million and $0.7 million compared to $1.4 million and $0.7 million respectively in 2003 notwithstanding lower debt. The costs remained comparable to the prior period because of increased rates occasioned by the renegotiation of the term loan, and the covenant breach of the operating line. The shift towards higher demand loan interest and reduced long-term debt interest is a reflection of the decline in long-term debt through fixed monthly amortization and the increased dependence on operating debt.

Other Income – Other income comprises foreign exchange gains on translation of US dollar-denominated net working capital.

Income taxes – The combined income tax provisions for continuing and discontinued operations for the six months ended June 30, 2004 and 2003 were comprised of the following:

	2004	2003
Canadian tax rate net of manufacturing and processing deduction	$ 665	$ 656
Federal large corporations tax	46	102
Foreign tax differentials	26	11
Tax recoveries and other	(75)	(117)
	$ 662	$ 652
Income tax provision (recovery) – continuing operations	$ 960	$ 1,056
– discontinued operations	(298)	(404)

LIQUIDITY AND CAPITAL RESOURCES – 2004

Cash flows from operations – AirBoss generated $6.4 million and $3.7 million in operating cash flows from continuing operations before changes in non-cash working capital balances during the six and three month periods ended June 30, 2004, an improvement of $1.1 million and $0.6 million over the same periods in 2003 respectively. The increase is due to the improved operating results of the rubber compounding business.

Non-cash working capital – The use of non-cash working capital increased by $3.9 million and $5.9 million respectively for the six and three-month periods ended June 30, 2004. The increased usage is traditional as the rate of commercial activity is heavier in the second and third quarters of the year. However, in 2004, inventories and accounts receivable have been affected by higher raw material costs, which inflate inventory carrying values and accounts receivable through higher unit prices. In addition, the volume growth also affected inventory levels required to service customers and the level of accounts receivable, compared to 2003.

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

	Six Months Ended June 30		Three Months Ended June 30	
($000)	**2004**	2003	**2004**	2003
Cash provided by (used for)				
Accounts Receivable	**$ (8,072)**	$ (3,830)	**$ (3,472)**	$ 1,616
Inventories	**415**	1,188	**848**	1,249
Income taxes payable (receivable)	**340**	(125)	**125**	(590)
Prepaid expenses	**(114)**	205	**337**	(130)
Accounts payable and accrued liabilities	**571**	(428)	**(2,639)**	(1,013)
	$ (6,860)	$ (2,990)	**$ (4,801)**	$ 1,132

Capital expenditures – Capital expenditures for the six months ended June 30, 2004 were $2.1 million compared to the $1.6 million in same period of 2003. Of this amount $1.3 million was spent in AirBoss Rubber Compounding of which over $507 was used to upgrade production assets, $365 to improve electrical service for the expanding production volumes and the remainder in building maintenance and data systems. Acton and Other spent $1.0 million mostly to expand military production capacity and to maintain and improve industrial products production.

Financing – The financial results of the fourth quarter of 2003 were materially affected by certain events, which triggered a violation of certain covenants governing both the operating line of credit and the term loan. Since the covenants are based on a four-quarter trailing EBITDA calculation and because the fourth quarter 2003 results significantly reduce the EBITDA calculation, the Company remains in violation of these covenants as at June 30, 2004. AirBoss anticipates that it will continue to remain in violation until the fourth quarter of 2004 when the trailing 2003 fourth quarter drops from the calculation. The term lenders waived the breaches of the covenants at December 31, 2003 and have previously extended the waiver until the end of the second quarter of 2004. Because neither lender is in a position to approve a waiver for a full year, the Company is required by Canadian GAAP to reclassify the $19.0 million long-term portion of the loan as a current liability since the lenders have the right to demand repayment. The reclassification of the long-term portion of the term loan to current creates a working capital deficiency.

The Company expects to fund its cash requirements for the year through internal sources and available lines of credit.

Subsequent Event – The Company concluded an agreement in the third quarter, whereby the Acton-brand commercial footwear will be manufactured by a third party. This agreement follows the Company's earlier announcement of its plans to focus upon the manufacture and sale of specialized footwear for “First Response” and military needs. The agreement is consistent with this objective but calls for the Company to extend its production of commercial footwear past its previously announced date of August until approximately January 2005.

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

NEW ACCOUNTING STANDARDS

Stock-Based Compensation – Effective January 1, 2004, Canadian GAAP CICA 3870 requires 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 under the stock option plan. Under transitional provisions, the Company charged the opening retained earnings $698 to reflect the cumulative effect of the change in accounting policy.

Asset Retirement Obligations – Effective January 1, 2004, Canadian GAAP CICA 3110 requires companies to estimate and record the fair value of the liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. This standard applies to legal obligations pertaining to the retirement of tangible long-lived assets from acquisition, construction, development or normal operations. The adoption of this standard did not have a material impact to the Company's consolidated financial position at January 1, 2004.

RISK FACTORS AND UNCERTAINTIES

No material changes in the main risk factors facing the Company have occurred since the fiscal year ended December 31, 2003. Risk factors are described in the Company's 2003 annual report.

OUTLOOK

AirBoss Rubber Compounding volumes for the second half of 2004 are expected to maintain the increases experienced in the second quarter. Margin percentages are expected to remain unchanged due to further increases in raw material prices but should continue to improve in dollar terms due to higher production levels provided that raw material price escalation moderates in the last half.

The Railway and Distribution segment anticipates results comparable to 2003 during the next quarter subject to the volatility of the US dollar and mounting steel price surcharges. During the fourth quarter it expects to complete and market its new "captive" rail fastening system.

Acton's "CBRN" gloves, footwear and gas masks are enjoying significant interest by the USA and European militaries. Overall military sales will be skewed to the third and fourth quarters of 2004 compared to 2003 and are expected to exceed 2003 levels. Upon review by the US military of its "CBRN" requirements, the military decided not to pursue purchases of "MULO" boots as previously announced. Instead it has opted to purchase "ALO" boots, the product currently supplied by Acton.

Acton has also embarked upon an aggressive profit improvement plan, which has already resulted in a significant realignment of its non-military footwear products as at June 30, 2004. The Company concluded an agreement during the third quarter resulting in the discontinuation of commercial footwear production by year-end in order to focus exclusively upon "CBRN" products whose sales in 2005 are expected to exceed 2004 levels. The elimination of most non-military footwear production will generate cash through the reduction of inventories and accounts receivable.

August 9, 2004

Robert L. Hagerman
President and Chief Executive Officer

Axel Breuer
Vice-President Finance and Secretary

Consolidated Balance Sheets

(thousands) (unaudited)

As at	June 30, 2004	December 31, 2003
ASSETS		
Current assets:		
Accounts receivable	$ 29,388	$ 21,316
Inventories	20,312	20,727
Income taxes receivable	283	623
Prepaid expenses	869	755
Discontinued operations (Note 3)	7,249	5,651
	58,101	49,072
Capital assets	49,698	50,146
Discontinued operations (Note 3)	300	300
Goodwill	16,620	16,620
Other assets	2,198	3,122
	$ 126,917	$ 119,260
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand loan	$ 19,826	$ 13,835
Accounts payable and accrued liabilities	17,783	17,212
Discontinued operations (Note 3)	1,447	1,026
Term loan and other debt (Note 2)	23,096	24,642
	62,152	56,715
Future income tax liability	10,228	9,690
Accrued post retirement benefit liability (Note 5)	952	834
Shareholders' equity:		
Share capital	38,405	38,405
Contributed surplus (Note 1)	841	143
Retained earnings	14,339	13,473
	53,585	52,021
	$ 126,917	$ 119,260

Consolidated Statements of Earnings (Loss) and Retained Earnings

(thousands except per share amounts) (unaudited)

	Six months ended June 30		Three months ended June 30	
	2004	2003	**2004**	2003
NET SALES (Note 3)	**$ 94,882**	$ 91,243	**$ 50,196**	$ 45,640
Cost of sales	**81,429**	78,550	**43,063**	39,614
Gross Margin	**13,453**	12,693	**7,133**	6,026
EXPENSES:				
General and administrative	**4,374**	3,836	**2,340**	1,971
Selling, marketing and distribution	**4,053**	3,775	**2,067**	1,737
Product research	**731**	505	**384**	71
Total operating expenses	**9,158**	8,116	**4,791**	3,779
Income from operations	**4,295**	4,577	**2,342**	2,247
Interest expense				
– Demand loan	**(446)**	(357)	**(267)**	(208)
– Long term debt	**(948)**	(1,049)	**(429)**	(525)
Other income	**275**	51	**256**	317
Income from continuing operations before income taxes	**3,176**	3,222	**1,902**	1,831
Provision for income taxes	**960**	1,056	**530**	605
Net income from continuing operations	**2,216**	2,166	**1,372**	1,226
Net loss from discontinued operations net of tax (Note 3)	**(652)**	(886)	**(399)**	(618)
Net income	**1,564**	1,280	**973**	608
Retained earnings, beginning of period as previously stated	**13,473**	17,783	**13,366**	18,455
Stock-based Compensation (Note 1)	**(698)**	–	**–**	–
Retained earnings, beginning of period as restated	**12,775**	17,783	**13,366**	18,455
Retained earnings, end of period	**$ 14,339**	$ 19,063	**$ 14,339**	$ 19,063
Net income per share				
From continuing operations				
– Basic	**$ 0.10**	$ 0.10	**$ 0.06**	$ 0.05
– Diluted	**0.10**	0.09	**0.06**	0.05
From net income				
– Basic	**$ 0.07**	$ 0.06	**$ 0.04**	$ 0.03
– Diluted	**0.07**	0.06	**0.04**	0.03

Consolidated Statements of Cash Flows

(thousands) (unaudited)

	Six months ended June 30		Three months ended June 30	
	2004	2003	**2004**	2003
CASH PROVIDED BY (USED IN):				
Operating Activities:				
Net income	**$ 2,216**	$ 2,166	**$ 1,372**	$ 1,226
Items not affecting cash:				
Amortization	**3,231**	2,648	**1,846**	1,390
Loss on disposal of capital assets	**–**	28	**–**	28
Future income taxes	**538**	600	**272**	711
Foreign exchange loss (gain)	**284**	(244)	**173**	(244)
Post-retirement benefits expense	**118**	108	**59**	54
	6,387	5,306	**3,722**	3,165
Changes in non-cash operating working capital balances				
Accounts receivable	**(8,072)**	(3,830)	**(3,472)**	1,616
Inventories	**415**	1,188	**848**	1,249
Income taxes payable	**340**	(125)	**125**	(590)
Prepaid expenses	**(114)**	205	**337**	(130)
Accounts payable and accrued liabilities	**571**	(428)	**(2,639)**	(1,013)
	(6,860)	(2,990)	**(4,801)**	1,132
Continuing operations	**(473)**	2,316	**(1,079)**	4,297
Net change in discontinued operations (Note 3)	**(1,829)**	(331)	**(1,306)**	(750)
Investing Activities:				
Purchase of capital assets	**(2,135)**	(1,550)	**(978)**	(363)
Purchase of other assets	**(5)**	(232)	**(5)**	(133)
Proceeds of disposal of capital assets	**–**	86	**–**	86
	(2,140)	(1,696)	**(983)**	(410)
Financing Activities:				
Net increase (decrease) in demand loan	**5,991**	1,272	**4,132**	(2,361)
Repayment of term debt	**(1,500)**	(1,500)	**(750)**	(750)
Payment of other debt	**(49)**	(72)	**(14)**	(37)
Issuance of share capital	**–**	11	**–**	11
	4,442	(289)	**3,368**	(3,137)
Increase (decrease) in cash during the period	**–**	–	**–**	–
Cash and short term deposits at the beginning of the period	**–**	–	**–**	–
Cash and short term deposits at the end of the period	**$ –**	$ –	**$ –**	$ –
Interest paid	**$ 1,273**	$ 1,382	**$ 634**	$ 640
Income taxes remitted (recovered)	**(342)**	(24)	**(543)**	59

Notes to Consolidated Financial Statements

Six months ended June 30, 2004 and 2003

NOTE 1 – ACCOUNTING POLICIES

The Consolidated Interim Financial Statements include the accounts of the Company, its wholly owned subsidiaries and its proportionate share of joint ventures (collectively, the "Company"). These Consolidated Interim Financial Statements are prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and with the accounting policies outlined in the Company's audited Consolidated Financial Statements for the year ended December 31, 2003, except as noted below. These Statements and related notes should be read in conjunction with the Company's audited Consolidated Financial Statements for the year ended December 31, 2003. The Company is not significantly affected by seasonal or cyclical business factors.

Effective January 1, 2004, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") with respect to stock-based compensation and other stock-based payments. Under these recommendations a fair value based method of accounting is required for all stock-based payments to employees and non-employees. The Company has applied the new recommendations retroactively, without restatement of prior periods, for awards granted after January 1, 2002. As a result, the Company has recorded a charge to retained earnings of $698 for awards granted in 2002 and 2003 and a corresponding adjustment to contributed surplus on January 1, 2004. No such payments or awards were made during the six months ended June 30, 2004.

Effective January 1, 2004, the Company adopted the new recommendations of the CICA with respect to asset retirement obligations. The standard requires the Company to record the fair value of the liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The adoption of this standard did not have a material impact to the Company's consolidated financial position at January 1, 2004.

NOTE 2 – FINANCIAL COVENANTS

The financial results of the fourth quarter of 2003 were materially affected by certain events, which triggered a violation of certain covenants governing both the operating line of credit and the term loan. Since the covenants are based on a four-quarter trailing EBITDA calculation and because the fourth quarter 2003 results significantly reduce the EBITDA calculation, the Company remains in violation of these covenants as at June 30, 2004. The Company anticipates that it will continue to remain in violation until the fourth quarter of 2004 when the trailing 2003 fourth quarter drops from the calculation. The lenders have not demanded repayment of these facilities and have previously waived application of certain of the violated covenants at March 31, 2004 and have previously extended the waiver until the end of the second quarter. Because neither lender is in a position to approve a waiver for a full year, the Company is required by Canadian GAAP to reclassify the $19,000 long-term portion of the loan as a current liability since the lenders have the right to demand repayment. While the reclassification 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 Company remains in breach of the covenants, the lenders could decide to demand repayment of the loans. In this hypothetical situation, there is no certainty that the Company would be able to secure such alternate financing.

NOTE 3 – DISCONTINUED OPERATIONS

During the quarter ended June 30, 2004, the Company adopted a formal plan to discontinue its manufacture of commercial footwear and to focus upon the manufacture and sale of specialized footwear for "First Response" and military needs. The production of commercial footwear had become increasingly uncompetitive in the face of growing foreign imports. The financial statements have been reclassified to segregate the results of the commercial footwear activities from the remaining continuing operations. The discontinued operations were previously reflected in the "Acton & Other" segment (Note 6) of the segmented results.

Loss from discontinued operations:

	Six months ended June 30		Three months ended June 30	
	2004	2003	**2004**	2003
Net sales	**$ 5,233**	$ 4,396	**$ 1,665**	$ 1,483
Gross Margin	**803**	950	**114**	372
Operating expenses	**1,753**	2,240	**696**	1,272
Loss before tax	**(950)**	(1,290)	**(582)**	(900)
Net loss	**$ (652)**	$ (886)	**$ (399)**	$ (618)
Amortization expense	**$ –**	$ 154	**$ –**	$ 77

Assets and liabilities held in discontinued operations:

As at	**June 30, 2004**	December 30, 2003
Accounts receivable	**$ 1,481**	$ 2,092
Inventory	**5,768**	3,559
Current assets	**7,249**	5,651
Accounts payable	**1,447**	1,026
Capital assets	**300**	300

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

Capital assets are recorded at their fair market value and are being held for sale.

NOTE 4 – SUBSEQUENT EVENT

The Company concluded an agreement, effective August 2004, whereby the Acton-brand commercial footwear will be manufactured by a third party. The agreement is consistent with its plan to discontinue the manufacture of commercial footwear (see Note 3) but calls for the Company to extend its production of commercial footwear past its previously announced cessation date of August until approximately January 2005.

NOTE 5 – POST RETIREMENT BENEFITS

During the six month and three month periods ended June 30, 2004, the Company's future retirement benefits expenses were $118 and $59 respectively.

Notes to Consolidated Financial Statements *(continued)*

Six months ended June 30, 2004 and 2003

NOTE 6 – SEGMENTED INFORMATION

Six Months Ended June 30, 2004	Canada	USA	Other	Total	Inter-Company
	Sales excluding Inter-Company				
Rubber compounding operations	$ 20,751	$ 38,780	$ 122	$ 59,653	$ 3,447
Engineered products					
Railway and distribution	68	14,311	11	14,390	4
Acton and other	4,293	15,599	947	20,839	4,056
	$ 25,112	**$ 68,690**	**$ 1,080**	**$ 94,882**	**$ 7,507**

Six Months Ended June 30, 2004	Rubber Compounding Operations	Engineered Products: Railway & Distribution	Engineered Products: Acton & Other	Corporate & Inter-Company Elimination	Total
Sales	$ 63,100	$ 14,393	$ 24,896	$ (7,507)	$ 94,882
Cost of sales	56,824	12,304	19,808	(7,507)	81,429
	6,276	2,089	5,088	–	13,453
Operating expenses	4,441	1,816	2,773	1,247	10,277
Income (loss) before income taxes	1,835	273	2,315	(1,247)	3,176
Provision for income taxes					960
Net income					**$ 2,216**
Assets employed – Canada	$ 69,181	$ –	$ 43,136	$ (146)	$ 112,171
– USA	–	7,197	–	–	7,197
– Total	$ 69,181	$ 7,197	$ 43,136	$ (146)	$ 119,368
Purchase of capital assets	$ 1,287	$ 133	$ 714	$ 1	$ 2,135
Amortization – Capital and other assets	1,176	571	1,375	109	3,231

Six Months Ended June 30, 2003	Canada	USA	Other	Total	Inter-Company
	Sales excluding Inter-Company				
Rubber compounding operations	$ 23,997	$ 24,917	$ 159	$ 49,073	$ 2,923
Engineered products					
Railway and distribution	71	15,571	62	15,704	3
Acton and other	6,892	17,402	2,172	26,466	3,543
	$ 30,960	$ 57,890	$ 2,393	$ 91,243	$ 6,469

Six Months Ended June 30, 2003	Rubber Compounding Operations	Engineered Products: Railway & Distribution	Engineered Products: Acton & Other	Corporate & Inter-Company Elimination	Total
Sales	$ 51,995	$ 15,706	$ 30,011	$ (6,469)	$ 91,243
Cost of sales	47,725	12,643	24,651	(6,469)	78,550
	4,270	3,063	5,360	–	12,693
Operating expenses	3,467	1,911	2,992	1,101	9,471
Income (loss) before income taxes	803	1,152	2,368	(1,101)	3,222
Provision for income taxes					1,056
Net income					**$ 2,166**

NOTE 6 – SEGMENTED INFORMATION *(continued)*

Six Months Ended June 30, 2003	Rubber Compounding Operations	Engineered Products: Railway & Distribution	Engineered Products: Acton & Other	Corporate & Inter-Company Elimination	Total
Assets employed – Canada	$ 63,957	$ –	$ 45,172	$ (448)	$ 108,681
– USA	–	8,598	–	–	8,598
– Total	$ 63,957	$ 8,598	$ 45,172	$ (448)	$ 117,279
Purchase of capital assets	$ 744	$ 43	$ 737	$ 26	$ 1,550
Amortization – Capital and other assets	944	278	1,309	117	2,648

Three Months Ended June 30, 2004	Sales excluding Inter-Company: Canada	USA	Other	Total	Inter-Company
Rubber compounding operations	$ 12,862	$ 18,376	$ 74	$ 31,312	$ 2,152
Engineered products					
Railway and distribution	47	7,684	10	7,741	1
Acton and other	2,940	7,260	943	11,143	2,731
	$ 15,849	**$ 33,320**	**$ 1,027**	**$ 50,196**	**$ 4,884**

Three Months Ended June 30, 2004	Rubber Compounding Operations	Engineered Products: Railway & Distribution	Engineered Products: Acton & Other	Corporate & Inter-Company Elimination	Total
Sales	$ 33,465	$ 7,740	$ 13,875	$ (4,884)	$ 50,196
Cost of sales	30,306	6,910	10,731	(4,884)	43,063
	3,159	830	3,144	–	7,133
Operating expenses	2,326	1,042	1,216	647	5,231
Income (loss) before income taxes	833	(212)	1,928	(647)	1,902
Provision for income taxes					530
Net income					**$ 1,372**
Purchase of capital assets	$ 697	$ 97	$ 184	$ –	$ 978
Amortization – Capital and other assets	546	486	750	64	1,846

Three Months Ended June 30, 2003	Sales excluding Inter-Company: Canada	USA	Other	Total	Inter-Company
Rubber compounding operations	$ 12,561	$ 11,714	$ 100	$ 24,375	$ 1,531
Engineered products					
Railway and distribution	48	8,006	(4)	8,050	2
Acton and other	2,946	8,823	1,446	13,215	1,892
	$ 15,555	$ 28,543	$ 1,542	$ 45,640	$ 3,425

Notes to Consolidated Financial Statements *(continued)*

Six months ended June 30, 2004 and 2003

NOTE 6 – SEGMENTED INFORMATION *(continued)*

Three Months Ended June 30, 2003	Rubber Compounding Operations	Engineered Products: Railway & Distribution	Engineered Products: Acton & Other	Corporate & Inter-Company Elimination	Total
Sales	$ 25,906	$ 8,048	$ 15,111	$ (3,425)	$ 45,640
Cost of sales	24,231	6,426	12,382	(3,425)	39,614
	1,675	1,622	2,729	–	6,026
Operating expenses	1,637	780	1,162	616	4,195
Income (loss) before income taxes	38	842	1,567	(616)	1,831
Provision for income taxes					605
Net income					**$ 1,226**
Purchase of capital assets	$ 277	$ 11	$ 58	$ 17	$ 363
Amortization – Capital and other assets	477	138	703	72	1,390

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