



AUTOMODULAR CORPORATION

ANNUAL REPORT 2004





AUTOMODULAR CORPORATION





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FINANCIAL HIGHLIGHTS

	Year ended December 31, 2004 (000's)	Year ended December 31, 2003 (000's)
Sales	\$ 93,537	\$ 107,909
Earnings (loss) before income taxes	(10,256)	6,085
Net earnings (loss)	(10,445)	3,745
Net earnings (loss) per share	(0.55)	0.20
Total assets	36,039	53,804
Shareholders' equity	22,145	34,590

TO THE SHAREHOLDERS

2004 was a difficult year for Automodular Corporation (“Automodular”). Plants in Delaware and in Pickering were closed following Automodular’s failure to win renewal business for the facilities. In addition, the Company was an unsuccessful bidder for a contract combining sequencing requirements for a new General Motors assembly plant in Lansing Delta Township with sequencing requirements for General Motors Lansing Grand River assembly plant. As a result, Automodular’s Tec-Mar Distribution Services, Inc. (“Tec-Mar”) subsidiary will cease providing sequencing and logistics services to the Lansing Grand River Cadillac plant and Tec-Mar will close three plants in Lansing commencing in 2005.

Operating results reflect these setbacks and caused the Corporation to review the carrying value of goodwill and intangible assets related to the 2003 Tec-Mar acquisition and to record a write-down of the \$11.3 million carrying value of these assets at year-end 2004.

Giving effect to the foregoing, the Company recorded a loss of \$10.4 million for the year ended December 31, 2004, a sharp contrast to the \$3.7 million profit earned the prior year. Before giving effect to the goodwill and intangible asset write-down, Automodular earned \$0.9 million.

Plant closings are costly and require careful execution to ensure that the movement of employees from closed plants into jobs in remaining plants does not compromise quality or service. During 2004, despite significant disruption from plant closings, Automodular improved its quality performance for the fourth straight year, ending the year with a record low defect rate of 16 parts per million.

In part owing to its sustained record of delivering defect free modules, Automodular won the largest order in its history in early 2005. Together with negotiated contract renewals, Automodular’s order backlog now exceeds \$400 million.

The current automotive environment is volatile, with frequent unscheduled plant closings as customers work to control inventories. This volatility is likely to continue through the introduction of new vehicle models over the next 18 months. Each week of downtime at an assembly plant served by Automodular reduces Automodular pre-tax earnings by \$100,000 to \$200,000. Automodular expects weak profit performance through 2005 and into 2006 until its new plants have reached full operating volumes and begin to make substantial economic contributions.

On behalf of the directors.

“Michael F. Blair”

Michael F. Blair,
Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following MD&A of our consolidated operating results and financial position is for the years ended December 31, 2004 and 2003 and should be read in conjunction with the accompanying consolidated financial statements and notes thereto. The MD&A provides an update on financial and non-financial developments during the past year.

BASIS OF PRESENTATION

We are a Canadian-based company and our accounting policies are in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar amounts are in Canadian dollars unless otherwise indicated.

COMPANY AND INDUSTRY OVERVIEW

Automodular Corporation ("Automodular" or "the Company") is a sequencer and sub-assembler of modules that are installed in cars and trucks assembled by General Motors ("GM") at plants in Canada and the United States. By sequencing, we mean that the sub-assembled modules, such as an instrument panel or a radiator support, arrive at the General Motors final assembly plant in precisely the sequence of their final installation in the vehicle, and at precisely the time they are to be installed.

All of our business is contract business. We are asked to bid on contracts by Tier 1 companies or by the OEM ("Original Equipment Manufacturer") directly. These contracts are bid on and awarded prior to the launch of the vehicle and are typically for periods from 3 to 5 years. From the moment the first vehicle goes down the assembly line until the last one, our Company ships components for each vehicle being assembled. We receive orders every 5 seconds and ship completed assemblies typically within 2 hours of receiving the respective order. Given the tight timeline, each plant is generally located within 5-10 km of the GM assembly plant which it serves. We are an integral part of the supply chain and fundamental to the cost-efficient final assembly of vehicles.

Our success is based on our ability to deliver defect-free modules to the final assembly plant on time, every time, at a cost that makes it more profitable for our customers (whether Tier 1 or GM) to use our services as opposed to either doing the work themselves or awarding the business to one of our competitors.

The sequencing and sub-assembly industry is extremely competitive. There is continued pressure from GM for cost reductions through re-quoting of existing contracts.

The Company recognizes that it is difficult to compete on some of the less complex sequencing work when bidding against significantly larger competitors who are able to bring economies of scale to bear. Automodular is focusing more of its business development efforts on more complex sub-assembly services which contain a higher value-added element. The Company is also seeking to generate new business with other OEM's in order to diversify its customer base.

At present, we employ in excess of 800 people in 7 operating facilities servicing 7 GM assembly plants. We operated more than 1.2 million square feet of plant space and provided sequencing and sub-assembly services for 1.6 million vehicles in 2004.

Our operating mission statement is *“to be the world class assembler and sequencing operation to the automotive manufacturers”*. We strive to meet or exceed our customers’ expectations and be competitive through continuous improvement. Our goal is zero defects.

Our core values reflect our commitment to this mission statement. They include the following:

- Highest quality in all aspects of our business
- Teamwork
- Commitment to customer satisfaction
- Respect for the individual
- Continuous improvement
- Long-term growth and profitability.

The Company provides services for the following platforms:

Truck plants	Oshawa, ON	Chevrolet Silverado GMC Sierra
	Pontiac, MI	Chevrolet Silverado GMC Sierra
Car plants	Oshawa, ON	Chevrolet Impala Chevrolet Monte Carlo Pontiac Grand Prix Buick Allure Buick Lacrosse
	Lansing, MI	Pontiac Grand Am
	Lansing, MI	Cadillac CTS Cadillac SRX Cadillac STS
	Lordstown, OH	Chevrolet Cobalt Pontiac Pursuit

INDUSTRY RISKS

The following are some of the more significant risks that could impact the Company and its future results:

Pricing pressures

As discussed previously, the Company enters into long-term contracts with its customers. The contracts often contain price concessions over the contract term. The goal is to reduce or eliminate this erosion of profitability by cost reductions realized through continuous improvement programs.

As a result of the competitive automotive environment pricing pressures have intensified. Customers continue to demand additional price reductions beyond existing contractual commitments which could have an adverse impact on the Company's future earnings.

Industry risk

The automotive industry is cyclical and influenced by various economic and political factors including interest rates, consumer demand and international conflicts.

Foreign currency

At the present time, more than 50% of the Company's operations are in the United States. Continued strength of the Canadian dollar versus the US dollar will adversely reflect the reported results of the Company.

Program risk

Earnings may be adversely impacted by poor consumer demand for vehicles for which the Company provides services. This may result in unplanned downtime. We earn revenues primarily based on a variable piece price and many of our costs are fixed in nature. The Company has felt the effect of this in 2005 both by way of the elimination of the third shift of operations in Pontiac and unplanned downtime experienced in its Oshawa and Lansing operations.

PERFORMANCE METRICS

The Company uses two key metrics in evaluating operating performance. EBITDA is used as a financial measurement in evaluating operating performance and is a measure of cash operating earnings. It is a metric that is widely used in evaluating the operating performance of companies in the automotive industry. The calculation of EBITDA is defined under the Results of Operations section of this MD&A. PPM (parts per million) defect rates are used as a metric to evaluate the quality performance of the Company.

2004 OVERVIEW

The current year was a disappointing one for the Company. Sales decreased to \$93.5 million from \$107.9 million and, combined with a write-off of goodwill and intangible assets, resulted in a net loss for the year of \$10.4 million or \$0.55 per share compared to a profit of \$3.7 million or \$0.20 per share in 2003.

Accomplishments included the following:

- Automodular was awarded contracts to sequence and sub-assemble components for the Lordstown, Ohio GM assembly plant for the Chevrolet Cobalt and Pontiac Pursuit during the first quarter of 2004. Significant time and resources were allocated to ensure a flawless launch of the program. The Company operates out of a 70,000 square foot facility and has 70 employees. Production commenced in the fourth quarter of 2004.
- The Company negotiated two union contracts. An initial three-year contract was reached with the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW"). In addition, Automodular negotiated a three-year extension of its contract with the International Union, United Automobile, Aerospace and Agricultural Equipment Workers of America ("UAW") for its Michigan-based operations. The Company is currently negotiating an initial contract with the UAW for its Ohio-based employees.
- During 2004, the Company was awarded two contracts to sequence and sub-assemble components for a new car program in the Oshawa area. In conjunction with these contract awards, the Company consolidated its existing business for the Oshawa GM car plants from two existing facilities to a new leased facility in Oshawa. One of the facilities previously used is owned by the Company.

An agreement was entered into subsequent to year-end to sell the facility with closing scheduled for April, 2005.

- Quality metrics as measured by parts per million defect rates decreased by 20% on a corporate-wide basis compared to 2003. The Company exceeded GM's definition of a "world class" supplier which is defined as a parts per million defect rate of less than 25.

Challenges included the following:

- The production of the Saturn-L vehicle at GM's Boxwood plant was terminated in June, 2004. The Company elected not to bid on sequencing orders for the new vehicle to be assembled at GM's Boxwood plant and accordingly, the Company's plant in Wilmington, Delaware was closed in the fourth quarter.
- Automodular had several contracts to sub-assemble and/or sequence components that were not renewed. These included contracts to supply GM's Oshawa car assembly plants and GM's Lansing car assembly plants.
- In the fourth quarter, Automodular learned that it was not successful in its bid to extend and expand its contracts for sequencing services for the Lansing Grand River car assembly plant. The Company has contracts that extend beyond 2005 with certain customers but it is expected that these contracts will be cancelled with the business transitioned to a competitor during 2005. In the absence of new business awards, the Company will close its Lansing facilities.
- In the fourth quarter, the Company also learned that the Pontiac truck assembly plant would change from a three-shift operation to a two-shift operation. This change was implemented effective January, 2005. As a result of this change as well as the expected termination of the Lansing Grand River contracts, the Company has recorded a full write-down of its goodwill and intangible assets of \$11.3 million (US\$9.4 million) based on its assessment of the fair value of its Michigan-based operations.
- The continued rise in the Canadian dollar versus the US dollar resulted in lower earnings contributions from Automodular's US operations since the financial statements are expressed in Canadian dollars.
- As a result of the poor operations, Automodular failed to meet a banking covenant at December 31, 2004. The Company's bankers continued to extend credit and Automodular subsequently renegotiated its banking facilities and obtained a waiver of the covenant breach.

RESULTS OF OPERATIONS

The Company's comparative consolidated operating results for the years ended December 31, 2004 and 2003 are as follows:

(all numbers in thousands)	2004	% of sales	2003	% of sales
Sales	\$ 93,537	100.0%	\$ 107,909	100.0%
Cost of goods sold and other expenses	87,974	94.1%	96,110	89.1%
Earnings before the following:	5,563	5.9%	11,799	10.9%
Amortization	4,398	4.7%	5,011	4.6%
Interest expense	688	0.7%	736	0.7%
Stock option expense	25	0.0%	33	0.0%
Loss on disposal of and property, plant and equipment	-	-	130	0.1%
Foreign exchange	(218)	-0.2%	614	0.6%
Other income	(422)	-0.5%	(810)	-0.7%
	4,471	4.8%	5,714	5.3%
	1,092	1.1%	6,085	5.6%
Write-off of goodwill and intangible assets	11,348	12.1%	-	-
Earnings (loss) before income taxes	(10,256)	-11.0%	6,085	5.6%
Income taxes	189	0.2%	2,340	2.1%
Net earnings (loss) for the year	\$(10,445)	-11.2%	\$3,745	3.5%

SALES

Automodular's sales decreased from \$107.9 million in 2003 to \$93.5 million in 2004.

Canadian operations – Sales decreased to \$38.0 million from \$43.4 million as a result of the non-extension of certain contracts with Oshawa car plant operations and lower production volumes year over year.

US operations – The cancellation of the Saturn-L vehicle resulted in a decrease in sales from the Company's Wilmington operations of US\$3.3 million. Michigan-based revenues in 2004 were US\$39.8 million which reflected a decrease of US\$0.3 million compared to 2003 as a result of the expiry of contracts with Lansing car assembly plant offset by the increase in volume with the addition of a third Cadillac vehicle to the Lansing Grand River plant.

The continued strength of the Canadian dollar against the US dollar also resulted in lower sales than the previous year. The average exchange rate for 2004 when translated into Canadian dollars was \$1 Canadian being equivalent to US\$0.77. This compared to a rate of US\$0.71 in 2003. The impact on US dollar revenues in 2004 when translated into Canadian dollars was approximately \$4.2 million.

EARNINGS BEFORE INTEREST, TAXES, AMORTIZATION AND OTHER NON-CASH ITEMS

As previously described, Automodular uses an EBITDA metric as a measure of cash operating earnings. The Company defines the metric as "Earnings before interest, taxes, depreciation and amortization". It is not a defined term under Canadian GAAP and is, therefore, unlikely to be comparable to similar measures presented by other companies.

EBITDA decreased \$6.2 million to \$5.6 million in 2004.

Canadian operations—EBITDA was \$4.0 million lower than 2003 as a result of the expiry and non-renewal of certain commodities sequenced for the Oshawa car assembly plant. As a result of the loss of this business, the Company incurred costs relating to the closing of the Pickering facility. The expiry of these contracts resulted in substantial labour costs being incurred relating to the reallocation of employees throughout the organization. The CAW contract negotiated by the Company also resulted in higher labour costs.

US operations—EBITDA was adversely affected by the termination of the Saturn-L purchase order and resulting costs incurred relating to the shutdown of the Company's Wilmington operations. EBITDA from Wilmington operations was US\$0.6 million lower than in 2003. Tec-Mar Distribution Services, Inc. ("Tec-Mar") EBITDA decreased by US\$0.8 million from 2003. The additional Cadillac program volume in the GM Lansing Grand River assembly plant was more than offset by the non-renewal on expiry of the Lansing car assembly contracts and additional labour costs incurred to meet regular production volumes through extended work days and weekend overtime shifts.

AMORTIZATION

Amortization decreased \$0.6 million compared to 2003 primarily as a result of the stronger Canadian dollar during 2004 which reduced the depreciation on the Company's Michigan-based capital and intangible assets.

INTEREST

Interest in the current year decreased as a result of the repayment of the non-revolving credit facility used to acquire credit facility used to acquire Tec-Mar offset by higher borrowings on the Company's operating lines, particularly in the second half of 2004.

WRITE-OFF OF GOODWILL AND INTANGIBLE ASSETS

During the fourth quarter, the Company experienced two events that resulted in it writing off the goodwill and intangible assets relating to its Michigan operations owned by Tec-Mar, the subsidiary which the Company acquired in 2003. First, Automodular learned that it was not successful in its bid to extend and expand its contracts for sequencing services for the Lansing Grand River car assembly plant. It is expected that existing contracts will be cancelled. In the absence of new business awards, the Company will close its Lansing facilities. The second event was the change at the Pontiac truck plant from a three-shift to a two-shift operation effective January, 2005.

As required, the Company evaluated the fair value of its Michigan-based operations to determine whether the carrying value of the goodwill and intangible assets was supportable. The Company reviewed its findings with an outside expert and, given the reduction in scope and profitability of the operations, concluded that it was prudent to write off the goodwill and intangible assets.

FOREIGN EXCHANGE

The Company recognized a foreign exchange gain of \$0.2 million in the current year compared to a loss of \$0.6 million in 2003. The change is due to the foreign exchange gains on the repayment of the Company's term credit facility, which is substantially denominated in US dollars, exceeding the foreign exchange losses on the Company's Delaware assets.

OTHER INCOME

Other income declined from 2003 by \$0.4 million. During 2004, the Company disposed of the balance of its investment portfolio.

INCOME TAXES

A comparison of effective tax rates from year to year is not meaningful. The write-off of the goodwill and intangible assets and the amortization of the intangible assets are not deductible for income tax purposes.

HISTORICAL ANNUAL DATA

(all numbers in thousands except per share amounts)

	2004	2003	2002
Sales	\$ 93,537	\$ 107,909	\$ 55,919
Net earnings (loss)	\$ (10,445)	\$ 3,745	\$ 4,033
Earnings per share			
Basic	\$ (0.55)	\$ 0.20	\$ 0.21
Diluted	\$ (0.55)	\$ 0.20	\$ 0.21
Total assets	\$ 36,039	\$ 53,804	\$ 42,806
Total long-term liabilities	\$ 122	\$ 9,216	\$ -
Cash dividends per share	\$ -	\$ 0.21	\$ 0.28

HISTORICAL QUARTERLY DATA - ROLLING EIGHT QUARTERS

(all numbers in thousands except per share amounts)

	2004				2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	\$28,648	\$26,789	\$19,478	\$18,622	\$24,734	\$29,869	\$25,359	\$27,947
Net earnings (loss)	\$1,057	\$716	\$(126)	\$(12,092)	\$987	\$2,264	\$(172)	\$666
Per share	\$0.06	\$0.04	\$(0.01)	\$(0.64)	\$0.05	\$0.12	\$(0.01)	\$0.04

The declining profitability in 2004 by quarter reflects the loss of contracts referred to above in the results of operations. The Q4 loss also includes the impact of the write-off of the Company's goodwill and intangible assets.

The third and fourth quarters of the year generally tend to generate lower earnings due to additional downtime in those quarters. During the month of July, GM is shut down for two weeks and in December for one week.

FOURTH QUARTER

The fourth quarter generated an EBITDA loss of \$0.2 million against a positive EBITDA figure of \$2.9 million in the previous year. The substantial reduction was due to the loss of contracts, additional labour costs incurred in Canadian operations and the additional labour costs incurred in Michigan due to productivity issues at the GM plants that the Company services. These items are discussed in more detail in the full year operations commentary.

The loss of \$12.1 million for the quarter is largely due to the write-off of the goodwill and intangible assets of the Company's Michigan operations.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES

(all numbers in thousands)	2004	2003
Net earnings (loss)	\$ (10,445)	\$ 3,745
Non-cash items	15,519	5,112
Non-cash working capital	<u>(2,083)</u>	<u>(2,480)</u>
Cash from operations	<u>\$ 2,991</u>	<u>\$ 6,377</u>

Cash from operations declined \$3.4 million from 2003 to 2004. The decline is due to the lower level of earnings in the current year.

INVESTING ACTIVITIES

(all numbers in thousands)	2004	2003
Purchase of property, plant and equipment (net)	\$ (1,808)	\$ (2,094)
Funding of pension plan	(125)	(124)
Proceeds on disposal of long-term investments	611	388
Business acquisition	<u>(375)</u>	<u>(28,871)</u>
Cash from investing activities	<u>\$ (1,697)</u>	<u>\$ (30,701)</u>

Net property, plant and equipment (purchases less proceeds on dispositions) decreased by \$0.3 million. During the current year, the Company expended \$0.6 million relating to the startup of the Company's Lordstown, Ohio operations. The current year also included \$0.5 million relating to leasehold improvements made on the Company's new Oshawa facility. In 2003, the majority of the additions related to the opening of a Lansing facility and error-proofing technology.

The purchase price of the acquisition of Tec-Mar was \$28.9 million (net of cash acquired). The cash expenditure in the current year related to the payment of the 2003 earnout adjustment.

FINANCING ACTIVITIES

(all numbers in thousands)	2004	2003
Issue of common shares	\$ -	\$ 773
Proceeds from long-term liabilities	-	17,500
Repayment of long-term liabilities	(3,938)	(3,839)
Dividends paid	<u>-</u>	<u>(3,974)</u>
Cash from financing activities	<u>\$ (3,938)</u>	<u>\$ 10,460</u>

During 2003, the proceeds of \$17.5 million related to the funds obtained to finance the acquisition of Tec-Mar. Repayment of \$3.9 million in 2004 and \$3.8 million in 2003 includes \$3.5 million repaid relating to the Tec-Mar loan with the balance relating to principal repayments on capital leases.

Dividends were declared and paid at the rate of 7 cents per share per quarter for each of the first three quarters of 2003 totalling \$4.0 million. No dividends have been declared or paid since.

UNUSED AND AVAILABLE FINANCING RESOURCES

Automodular has net cash on hand at year end of \$1.0 million compared to cash on hand at the end of 2003 of \$3.9 million. The Company has available to it a \$5 million operating line.

OFF BALANCE SHEET FINANCING

The Company's off balance sheet financing includes operating lease commitments. Total commitments for 2005 as disclosed in note 14 of the consolidated financial statements are \$10.4 million.

The Company is committed to an interest rate swap agreement on the majority of its US dollar denominated debt which expires December, 2005. The agreement subjects the Company to a fixed rate of 5.85% and the counterparty to a floating three-month US dollar LIBOR rate.

CONTRACTUAL OBLIGATIONS DUE BY YEAR

(all numbers in thousands)

	2005	2006	2007	2008	2009	Thereafter
Long-term debt	\$ 8,153	\$ -	\$ -	\$ -	\$ -	\$ -
Capital lease obligations	\$ 239	\$ 122	\$ -	\$ -	\$ -	\$ -
Operating leases	\$ 10,408	\$ 7,800	\$ 6,377	\$ 5,868	\$ 5,257	\$ 7,685
Total obligations	\$ 18,800	\$ 7,922	\$ 6,377	\$ 5,868	\$ 5,257	\$ 7,685

SHAREHOLDERS' EQUITY

Shareholders' equity decreased from \$34.6 million to \$22.1 million.

The reduction is mainly due to the loss created as a result of the write-off of the goodwill and intangible assets of the Company's Michigan-based operations. Included as a separate component of shareholders' equity is a cumulative translation adjustment of \$5.0 million. This loss results from the increased strength of the Canadian dollar against the US dollar (since the date Tec-Mar was acquired) when translating the Tec-Mar operations to Canadian dollars. This loss has been offset by a gain on the US dollar portion of the financing. Automodular will continue to be affected by changes in the Canadian dollar. The Company does not enter into foreign exchange contracts for speculative purposes.

OUTSTANDING SHARE DATA

(all numbers in thousands)

	2004		2003	
	# Outstanding	Dollars	# Outstanding	Dollars
Common shares	12,064,233	\$ 19,010	12,064,233	\$ 19,010
Class X shares	1,504,365	\$ 21,376	1,504,365	\$ 21,376
		\$ 40,386		\$ 40,386

Note: Class X shares were issued by a subsidiary and are exchangeable into 7,000,000 Common shares of the Company.

At December 31, 2004, 680,000 options to purchase common shares of the Company were outstanding.

2005 OUTLOOK

The outlook for the Company in 2005 is uncertain. In 2004, the Company completed the shutdown or rationalization of three facilities relating to expired or terminated contracts. In 2005 the Company will have to address the transition of its existing Lansing business to a competitor. The exact timing of the transition and residual costs, if any, that will be incurred are not known with any degree of certainty at this time.

Adding to the uncertainty, higher inventory levels for certain vehicles for which the Company provides services have resulted in unanticipated downtime. As an example, in the first quarter of 2005, the Oshawa truck plant experienced one week of downtime, the Lansing Grand River car plant had one week of downtime and one of the Oshawa car plants had three weeks of downtime. Substantially all of the Company's revenues are derived from variable piece price contracts. As such, unexpected downtime significantly impacts earnings since a substantial portion of the Company's expenses are fixed.

Finally, the Company finds itself in the position of re-negotiating several contracts with GM. These include a renewal of its Oshawa truck operations contracts which expire during 2005.

Automodular has received recent contract awards from North American OEMs and their Tier 1 suppliers ranging from 3 to 8 years and totaling more than \$400 million.

These contract awards will require substantial funds to be expended prior to the commencement of commercial operations. Both capital and soft costs are incurred prior to the start of full production. Soft costs include all operating costs incurred during the ramp up or pre-production periods and these costs would then be rolled into the variable piece price. Automodular estimates the capital and pre-production expenses related to its recent contract awards will exceed \$20 million and is taking steps to finance these programs.

ACCOUNTING POLICIES

The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and the related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances. The Company regularly examines its estimates. However, actual results may differ from these estimates under different assumptions or conditions.

CRITICAL ACCOUNTING POLICIES

The Company believes that the following accounting policies are critical because they involve significant judgment and estimates to be used.

GOODWILL AND INTANGIBLE ASSETS

As required by section 3062 of the CICA handbook, goodwill and intangible assets must be evaluated at least annually to determine whether any impairment exists. The analysis compares the fair value of the reporting unit to the underlying carrying value of the reporting unit's net assets. A portion of Automodular's goodwill arose upon acquisition of the Company in 1997, with the balance relating to the acquisition of Tec-Mar in 2003. Goodwill represents the excess of the purchase price over the estimated fair values of the net

identifiable tangible and intangible assets of an entity acquired, as at the date of acquisition. Intangible assets included the fair value of the Tec-Mar purchase orders in place upon acquisition plus deferred contract costs.

The Company has evaluated the carrying value of its goodwill and intangibles relating to its Michigan operations and concluded that as a result of the expected cancellation of existing Lansing Grand River contracts and the reduction of one shift of operations in the Company's Michigan operations that a complete write-down of \$11.3 million (US\$9.4 million) was required.

The Company also evaluated the \$9.4 million carrying value of its goodwill relating to its Canadian operations and concluded that no write-down is required.

EXIT COSTS

As described previously, the Company has been made aware that certain contracts in the Lansing area will be terminated. In the absence of new business awards, the Company will close operations in the area. In this eventuality, Automodular may be exposed to certain exit costs such as excess lease costs and severance costs. The Company intends to mitigate its exposure to these costs through breach of contract remedies, sublet and other opportunities. It is not possible to quantify the potential exposure, if any, at this time. As a result, no amount has been recorded in the financial statements.

FORWARD LOOKING STATEMENTS

This MD&A contains statements which, to the extent that they are not recitations of historical fact, may constitute "forward looking statements". Forward looking statements may include financial and other projections, as well as statements regarding our future plans, objectives or performance, or our underlying assumptions. The words "*estimate, anticipate, believe, expect, intend*" or other similar expressions are intended to identify forward looking statements. Persons reading this MD&A are cautioned that such statements are only predictions, and that our actual future results or performance may be materially different.

Forward looking information involves certain risks, assumptions, uncertainties and other factors which may cause actual future results to differ materially from those expressed or implied in any forward looking statements. In Automodular's case, these factors principally relate to the risk with the automotive industry and include, but are not limited to: the effect of new accounting standards on our financial results; our ability to identify, close and integrate acquisitions; the ability to finance new business requirements; global economic conditions; fluctuations in interest and exchange rates; the continuation and extent of outsourcing by automotive manufacturers; our ability to meet customer needs relating to cost and quality; labour issues or disruptions; customer pricing pressures; actual levels of program production volumes differing from original expectations; our dependence on certain platforms; our relationship with and dependence on General Motors Corporation; new program launch risks and other changes in the business environment in which we operate. We do not intend, nor do we undertake any obligation, to update or revise any forward looking statements to reflect subsequent information, events, results, circumstances or otherwise.

Additional information regarding the Company, including the Annual Information Form, can be found at SEDAR at www.sedar.com

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The accompanying consolidated financial statements and all information contained in this report were prepared by and are the responsibility of management. The statements were prepared in accordance with Canadian generally accepted accounting principles and include management's best judgments and estimates. Where alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial information presented elsewhere in this report is consistent with that in the financial statements.

The company maintains a system of internal controls which provides management with reasonable assurance that financial information is relevant, reliable and accurate and that the company's assets are properly accounted for and adequately safeguarded.

The consolidated financial statements have been audited by the independent external auditors appointed by the shareholders, Smith, Nixon & Co. LLP. In that capacity, they have examined and reported on the consolidated financial statements for the years ended December 31, 2004 and 2003. The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors and has recommended their approval by the Board of Directors.

"Michael F. Blair"

Michael F. Blair
Chief Executive Officer
Toronto, Ontario

February 24, 2005

TO THE SHAREHOLDERS OF AUTOMODULAR CORPORATION

We have audited the consolidated balance sheets of Automodular Corporation as at December 31, 2004 and 2003 and the consolidated statements of earnings, deficit 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 audits.

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

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

TORONTO, ONTARIO

February 24, 2005



CHARTERED ACCOUNTANTS

CONSOLIDATED BALANCE SHEETS

as at December 31, 2004 and 2003
(all numbers in thousands)

	2004	2003
ASSETS		
Current assets:		
Cash	\$ 995	\$ 3,929
Investments (trading value 2004 – \$nil; 2003 – \$233)	–	199
Receivables (Note 3)	10,549	12,037
Inventory	185	260
Income taxes receivable	1,534	1,037
Prepaid expenses	4,545	2,690
	<u>17,808</u>	<u>20,152</u>
Long-term investments	–	33
Future income taxes (Note 10)	18	210
Property, plant and equipment (Note 4)	6,982	9,481
Other assets (Note 5)	11,231	23,928
	<u>\$ 36,039</u>	<u>\$ 53,804</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,380	\$ 6,052
Current portion of long-term liabilities (Note 7)	8,392	3,946
	<u>13,772</u>	<u>9,998</u>
Long-term liabilities (Note 7)	122	9,216
	<u>13,894</u>	<u>19,214</u>
Contingencies and Commitments (Note 14)		
SHAREHOLDERS' EQUITY		
Capital stock (Note 8)	40,386	40,386
Contributed surplus	58	33
Cumulative translation adjustment	(5,006)	(2,981)
Deficit	(13,293)	(2,848)
	<u>22,145</u>	<u>34,590</u>
	<u>\$ 36,039</u>	<u>\$ 53,804</u>

Signed on behalf of the Board

"Michael F. Blair"

Director

"Rae E. Wallin"

Director

CONSOLIDATED STATEMENTS OF DEFICIT

years ended December 31, 2004 and 2003
(all numbers in thousands)

	2004	2003
BALANCE – BEGINNING OF YEAR	\$ (2,848)	\$ (2,619)
Net earnings (loss) for the year	(10,445)	3,745
Dividends	-	(3,974)
BALANCE – END OF YEAR	\$ (13,293)	\$ (2,848)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended December 31, 2004 and 2003
(all numbers in thousands except shares and per share amounts)

	2004	2003
SALES	\$ 93,537	\$ 107,909
COST OF SALES AND OTHER EXPENSES	87,974	96,110
EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING:	5,563	11,799
Amortization	4,398	5,011
Interest expense	688	736
Loss on disposal of property, plant and equipment	-	130
Stock option expense	25	33
Foreign exchange	(218)	614
Other income <i>(Note 9)</i>	(422)	(810)
	4,471	5,714
	1,092	6,085
WRITE-OFF OF GOODWILL AND INTANGIBLE ASSETS	11,348	-
EARNINGS (LOSS) BEFORE INCOME TAXES	(10,256)	6,085
INCOME TAXES <i>(Note 10)</i>	189	2,340
NET EARNINGS (LOSS) FOR THE YEAR	\$ (10,445)	\$ 3,745
Earnings (loss) per share		
Basic	\$ (0.55)	\$ 0.20
Diluted	\$ (0.55)	\$ 0.20
Weighted average common shares outstanding	12,064,233	11,938,617
Exchangeable Class X shares <i>(Note 8(c))</i>	7,000,000	7,000,000
Basic weighted average common shares outstanding	19,064,233	18,938,617
Basic weighted average common shares outstanding	19,064,233	18,938,617
Incremental shares from stock options and warrants	8,970	82,986
Diluted weighted average common shares outstanding	19,073,203	19,021,603

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

years ended December 31, 2004 and 2003
(all numbers in thousands)

	2004	2003
CASH PROVIDED BY (USED IN)		
OPERATIONS		
Net earnings (loss) for the year	\$ (10,445)	\$ 3,745
Items not involving current cash flows <i>(Note 11)</i>	15,519	5,112
Net change in non-cash working capital <i>(Note 11)</i>	(2,083)	(2,480)
	2,991	6,377
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,808)	(2,134)
Proceeds on disposal of property, plant and equipment	–	40
Funding of pension plan	(125)	(124)
Proceeds on disposal of long-term investments	611	388
Business acquisition <i>(Note 2)</i>	(375)	(28,871)
	(1,697)	(30,701)
FINANCING ACTIVITIES		
Issue of common shares	–	773
Proceeds from long-term liabilities	–	17,500
Repayment of long-term liabilities	(3,938)	(3,839)
Dividends paid	–	(3,974)
	(3,938)	10,460
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(290)	(517)
CHANGE IN CASH	(2,934)	(14,381)
CASH – beginning of year	3,929	18,310
CASH – end of year	\$ 995	\$ 3,929

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at December 31, 2004 and 2003
(all numbers in thousands except share and per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Automodular Corporation and its subsidiaries (the "Company") and have been prepared following Canadian generally accepted accounting principles.

Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Financial Instruments and Risk Management

The carrying value of cash, receivables, income taxes receivable, accounts payable and accrued liabilities are considered to be representative of their respective values due to their short-term nature.

The fair value of long-term liabilities approximate carrying values since actual rates approximate market rates.

Inventory

Inventory consists of raw materials and finished goods and is valued at the lower of cost or market on a first-in, first-out basis.

Investments

Short-term investments are recorded as current assets and are carried at the lower of cost or trading value.

Long-term investments are carried at cost less any write-downs for impairments that are other than temporary.

Property, plant and equipment

Property, plant and equipment are stated at cost and are amortized over the estimated useful lives of the assets using diminishing balance or straight line methods at effective annual rates ranging from 10% to 40%. Open projects are assets not currently available for use and will be reclassified to their appropriate classification upon project completion.

Revenue Recognition

Revenues are recognized upon shipment to, or receipt by, our customers (depending on contractual terms) and acceptance, by our customers, of the products delivered in accordance with contractual specifications and quality standards detailed in the underlying contracts or agreements with them. Revenues are measured in accordance with contractual prices and recognized when collection is reasonably assured.

Deferred Contract Costs

During 2003, the Company changed its accounting policy for accounting for deferred contract costs. The Company will continue to capitalize costs incurred in establishing new production lines and facilities which require substantial time to reach commercial production capability. However, amortization of these costs will be recorded over the life of the original contract, commencing on the date commercial production is achieved. Prior to 2003, the amortization period was revised as the contract period was extended. After commencement of commercial production, ongoing contract costs will be expensed in the period incurred. Prior to 2003, ongoing contract costs that provided a future benefit over the life of the contract were capitalized and amortized over the contract period.

This change in accounting policy was applied retroactively, and financial statements of prior periods were restated. The impact of adopting the new policy on the consolidated balance sheet and statement of earnings in 2003 was:

<i>Increase (decrease)</i>	2003
Changes in consolidated balance sheet:	
Other assets	\$ (2,079)
Property, plant and equipment	(55)
Future income taxes	747
Deficit	1,387
Changes in consolidated statement of earnings:	
Cost of sales and other expenses	\$ 297
Depreciation	(505)
Income taxes	73
Net earnings	<u>\$ 135</u>
Earnings per share – basic and diluted	<u>\$ 0.01</u>

Goodwill

Goodwill represents the excess of the purchase price of the Company's interest in subsidiary entities over the fair value of the underlying net identifiable tangible and intangible assets arising on acquisition.

The Company reviews the carrying value of its goodwill and intangible assets on an annual basis to determine whether there has been any impairment in fair value. Any permanent impairment would then be recorded as a separate charge against earnings and a reduction of the carrying value of goodwill and intangible assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at December 31, 2004 and 2003

(all numbers in thousands except share and per share amounts)

In accordance with CICA Handbook Section 3062 "Goodwill and Other Intangible Assets", the Company completed its annual goodwill and intangible impairment analysis during the fourth quarter of 2004. Based on the results obtained, the Company recorded a goodwill write-off of \$9,453 (US\$7,864), which related to the operations of Tec-Mar Distribution Services, Inc. ("Tec-Mar") Further, the Company recorded an intangible write-off of \$1,895 (US\$1,577), which related to production contracts acquired upon the acquisition of the Tec-Mar reporting unit.

Pension Plans

The Company has both defined contribution and defined benefit pension plans. The costs of defined contribution pension plans, representing the Company's required contribution, and the costs of defined benefit pension plans, determined based on the actuarial present value of future expected benefits attributed to the period, are charged to earnings in the period. Adjustments arising from plan amendments, experience gains and losses and changes in actuarial assumptions are amortized to earnings over the expected average remaining service lives of the respective employees.

Foreign Exchange

Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Other assets and liabilities and revenue and expense transactions are translated at the actual rates of exchange in effect at the time of the transaction. Exchange gains and losses are included in income.

The Company considers its Michigan and Ohio operations to meet the definition of self-sustaining foreign operations. Assets and liabilities of these operations are translated at the rate of exchange in effect at the balance sheet date. Sales and expenses are translated using the average exchange rate for the period. Exchange gains and losses arising from the translation are deferred and included in the cumulative translation adjustment account in shareholders' equity and will be included in income when there is a reduction in the net investment in the foreign operation.

Income Taxes

The Company uses the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Earnings per Share

Basic earnings per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method, which assumes that all options or warrants are exercised and that the proceeds would be used to purchase common shares at the average market price during the year.

Stock-based Compensation

The Company accounts for stock options granted using the fair value method. Under this method, compensation expense for stock options granted is measured at the fair value at the grant date using the Black-Scholes option pricing model and is recognized over the vesting period of the options granted.

2. BUSINESS ACQUISITION

On January 10, 2003, a subsidiary of the Company entered into an agreement to acquire 100% of the issued and outstanding shares of Tec-Mar Distribution Services, Inc. located in Michigan. Tec-Mar is a supplier of sequencing and sub-assembly services to automotive assembly plants. The transaction closed January 31, 2003.

The adjusted purchase price was US\$23,854 (CDN\$36,544) and was based upon US\$18,000 plus the excess of adjusted working capital over US\$6,400, which was US\$5,854. The purchase price will be increased for 50% of any Tec-Mar EBITDA (as defined in the agreement) that exceeds US\$4,500 in each of the four years from 2003 through 2006 inclusive. If Tec-Mar EBITDA falls below US\$4,500 in any year such deficit will be deducted from the next year's EBITDA. Any adjustments to the purchase price will be reflected as an addition to goodwill acquired in the period the adjustment is determined. Total cash consideration and acquisition costs presented below also includes US\$534 (CDN\$818) in direct costs incurred relating to the acquisition.

The purchase price was paid in cash on closing and was funded by a CDN\$17,500 non-revolving term credit facility and a US\$5,000 bridge credit facility. The bridge credit facility was repaid following the closing of the transaction.

In accordance with CICA Handbook Section 1581, the acquisition has been accounted for using the purchase method and the results of operations are included from the date of acquisition. The fair value of net assets in Canadian dollars acquired at the date of acquisition was as follows:

Current assets (including cash of \$8,491)	\$	21,352
Property, plant and equipment		3,979
Intangible assets – production contracts		4,637
Current liabilities		(3,575)
Long-term liabilities		(749)
Net identifiable assets acquired		25,644
Goodwill		11,718
Total cash consideration and acquisition costs	\$	37,362

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at December 31, 2004 and 2003

(all numbers in thousands except share and per share amounts)

An analysis was performed on the purchase price to identify and quantify any intangible assets acquired. This analysis resulted in the identification of US\$3,027 of production contracts in place. The average length of the contracts is four years, and accordingly the asset is being amortized on a straight-line basis over that term.

The adjustment to the purchase price as a result of 2003 operations was CDN\$375 (US\$270). No adjustment is expected as a result of 2004 operations.

3. RECEIVABLES

The Company, in the normal course of business, is exposed to credit risk from its customers all of whom are in the automotive industry. These accounts receivable are subject to normal industry credit risks. As at December 31, 2004, 67% (2003 - 74%) of trade receivables were due from General Motors Corporation.

All of the Company's sales are made to General Motors Corporation and its Tier 1 suppliers.

4. PROPERTY, PLANT AND EQUIPMENT

	2004			2003
	Cost	Accumulated Amortization	Net	Net
Land, buildings and leasehold improvements	\$ 4,818	\$ 2,582	\$ 2,236	\$ 3,123
Manufacturing equipment	8,208	6,014	2,194	3,355
Automotive equipment	2,987	2,216	771	970
Other equipment and furniture	4,155	2,866	1,289	1,693
Open projects	492	–	492	340
	<u>\$ 20,660</u>	<u>\$ 13,678</u>	<u>\$ 6,982</u>	<u>\$ 9,481</u>

5. OTHER ASSETS

	2004			2003
	Cost	Accumulated Amortization	Net	Net
Goodwill	\$ 9,414	\$ –	\$ 9,414	\$ 19,601
Intangible assets – production contracts	3,638	3,638	–	3,026
Deferred contract costs	544	–	544	–
Pension fund asset (Note 12)	1,273	–	1,273	1,301
	<u>\$ 14,869</u>	<u>\$ 3,638</u>	<u>\$ 11,231</u>	<u>\$ 23,928</u>

6. CREDIT FACILITIES

The Company has available to it a revolving credit facility with a limit of \$5,000. At December 31, 2004, the Company had drawn \$1,788 (2003 - \$930). Both the revolving credit facility and the term credit facility described in Note 7 are secured by the Company's present and future assets, properties and undertakings. Interest is calculated at the bank's prime rate of interest plus 0.75%. The effective interest rate at December 31, 2004 was 5% (2003 - 5.25%).

7. LONG-TERM LIABILITIES

Term credit facility, comprised of Canadian and US term loans bearing interest at floating rates, based on bankers acceptance, prime, or LIBOR. The effective interest rate for 2004 was approximately 5.2% (2003 - 5.4%). Of the total, \$8,114 (US \$6,750) is denominated in US dollars.

Capital leases with interest rates ranging from 7.5% to 8.5%, repayable in monthly instalments of \$19 (US\$16), with various maturities up to 2006, secured by equipment with an original capital cost of \$1,328 (US\$1,024).

	2004	2003
	\$ 8,153	\$ 12,337
	<u>361</u>	<u>825</u>
	8,514	13,162
Deduct: Current portion	<u>8,392</u>	<u>3,946</u>
	<u>\$ 122</u>	<u>\$ 9,216</u>

Under the terms of the financing arrangements with its bankers, the Company is required to meet certain financial and other covenants. The Company did not meet one of its financial covenants at December 31, 2004, which its bankers subsequently agreed to waive.

Interest expense on long-term liabilities for the year to date is \$526 (2003 - \$875).

The principal repayments of long-term liabilities are as follows:

2005	\$ 8,392
2006	122
	<u>\$ 8,514</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at December 31, 2004 and 2003

(all numbers in thousands except share and per share amounts)

8. CAPITAL STOCK

(a) Authorized

Unlimited number of common shares.

(b) Issued – Common Shares

	Number of Shares	Amount
Balance – December 31, 2002	11,869,233	\$ 18,238
Share options and warrants exercised	195,000	772
Balance – December 31, 2003 and 2004	<u>12,064,233</u>	<u>19,010</u>

Class X shares issued by a subsidiary (Note 8(c))

	Number of Shares	Amount
Balance – December 31, 2003 and 2004	<u>1,504,365</u>	<u>\$ 21,376</u>

Total \$ 40,386

(c) Class X shares

During 2001, a subsidiary of the Company issued 1,504,365 Class X shares, which are exchangeable into 7,000,000 common shares of the Company. The shares participate in the earnings and dividends of the Company as though they were common shares of the Company and accordingly are included in the calculation of weighted average common shares outstanding.

(d) Options

Under the Company's stock purchase plan, the board of directors is entitled to grant to designated directors, officers and employees of the Company or any subsidiary thereof, the right to purchase unissued common shares of the Company. The options are granted at a price not less than the fair value of the shares on the date of the grant.

All options granted in 2003 vest evenly over a period of five years except for 75,000 options granted which vest evenly over three years. No options were granted during 2004. 185,000 options expired during the current year.

As at December 31, 2004, options outstanding to certain directors, officers and employees for the purchase of common shares were as follows:

Date of Grant	Number	Exercise Price	Expiry Date	Options Exercisable
October 25, 2001	266,000	\$ 3.85	October 25, 2006	199,600
November 16, 2001	18,000	\$ 4.16	November 26, 2006	10,800
October 24, 2002	216,000	\$ 4.00	October 24, 2007	119,400
February 18, 2003	80,000	\$ 4.15	February 18, 2008	16,000
July 24, 2003	100,000	\$ 4.26	July 24, 2008	20,000
	<u>680,000</u>			

The fair value of stock options granted during 2003 and resultant compensation expense was estimated using the Black-Scholes option pricing model on the date of grant with the following weighted average assumptions:

	2004	2003
Stock price at grant date	\$ –	\$ 4.19
Exercise price	\$ –	\$ 4.19
Average life of options (years)		3.8
Expected stock price volatility		20%
Expected dividend yield		6.68%
Risk-free interest rate		3.65%
Fair value	\$ –	\$ 93
Compensation expense for the year	\$ 25	\$ 33

9. OTHER INCOME

	2004	2003
Interest, dividends and other	\$ 43	\$ 137
Gain on disposal of long-term investments	379	338
Gain on disposal of current investments	–	335
	<u>\$ 422</u>	<u>\$ 810</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at December 31, 2004 and 2003

(all numbers in thousands except share and per share amounts)

10. INCOME TAXES

(a) The future income tax asset is comprised of the following temporary differences:

	2004	2003
Property, plant and equipment and other assets	\$ (102)	\$ (115)
Reserves and other temporary differences	120	325
	<u>\$ 18</u>	<u>\$ 210</u>

(b) The Company has capital losses of approximately \$5,900 for income tax purposes which may be carried forward indefinitely to reduce future taxable capital gains. The potential benefit of these capital losses has not been recognized in these financial statements.

(c) The major factors that caused variations from the Company's combined federal and provincial statutory Canadian income tax rates of 36.12% (2003 - 36.62%) were the following:

	2004	2003
Earnings (loss) before income taxes	\$ (10,256)	\$ 6,085
Expected income tax expense at statutory rates	\$ (3,704)	\$ 2,228
Increase (decrease) resulting from:		
Non-deductible/non-taxable items	4,678	611
Tax rate differential on US operations	-	(105)
Manufacturing and processing deduction	(37)	(237)
Non-taxable portion of capital gains	(238)	(62)
Capital losses previously unrecognized	(238)	(62)
Non-capital losses previously unrecognized	(311)	-
Other	39	(33)
	<u>\$ 189</u>	<u>\$ 2,340</u>

(d) The details of the income tax provision are as follows:

	2004	2003
Current provision	\$ (819)	\$ 2,738
Future provision	1,008	(398)
	<u>\$ 189</u>	<u>\$ 2,340</u>

11. CASH FLOW INFORMATION

(a) Items not involving current cash flows

	2004	2003
Amortization	\$ 4,398	\$ 5,011
Loss on disposal of property, plant and equipment	-	130
Future income taxes	192	(483)
Gain on disposal of long-term investments	(379)	(338)
Write-off of goodwill and intangible assets	11,348	-
Compensation expense	25	33
Foreign exchange	(218)	614
Pension expense	153	145
	<u>\$ 15,519</u>	<u>\$ 5,112</u>

(b) Net change in non-cash working capital

	2004	2003
Investments	\$ -	\$ 273
Receivables	743	(1,423)
Inventory	72	142
Prepaid expenses	(1,778)	986
Accounts payable and accrued liabilities	(644)	(2,664)
Income taxes	(476)	206
	<u>\$ (2,083)</u>	<u>\$ (2,480)</u>

(c) Supplemental information

	2004	2003
Interest paid	\$ 688	\$ 951
Income taxes paid	\$ 797	\$ 2,335

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at December 31, 2004 and 2003
(all numbers in thousands except share and per share amounts)

12. PENSION PLANS

The Company has defined contribution plans in place for the employees of its subsidiaries. Contributions to these plans are based on specified percentages of salaries. The Company also has a defined benefit pension plan for a senior executive of the Company. The pension benefit for this plan is based on earnings and years of service.

	2004	2003
Total pension expense is comprised as follows:		
Defined benefit plan		
Service costs (benefits earned during the year)	\$ 79	\$ 72
Interest costs on accrued benefit obligation	69	59
Expected return on plan assets	(67)	(58)
Amortization of transitional obligations	72	72
	<u>153</u>	<u>145</u>
Defined contribution plans	666	744
Total pension expense	<u>\$ 819</u>	<u>\$ 889</u>
Pension fund asset is comprised as follows:		
Market value of plan assets at beginning of year	\$ 1,847	\$ 1,590
Employer contributions	125	124
Actual return on plan assets	117	133
Market value of plan assets at end of year	<u>\$ 2,089</u>	<u>\$ 1,847</u>
Accrued benefit obligation is comprised as follows:		
Obligation at beginning of year	\$ 1,074	\$ 912
Service costs (benefits earned during the year)	79	72
Interest costs on accrued benefit obligation	69	59
Actuarial loss on accrued benefit obligation	(6)	31
Accumulated benefit obligation at the end of the year	<u>\$ 1,216</u>	<u>\$ 1,074</u>
Funded status at end of year:	\$ 873	\$ 773
Items not recognized in earnings:		
Unrealized transitional obligation	429	501
Unrecognized actuarial losses	(29)	27
Pension fund asset	<u>\$ 1,273</u>	<u>\$ 1,301</u>

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation are as follows:

	2004	2003
Discount rate	5.75%	5.75%
Expected long-term rate of return on plan assets	3.50%	3.50%
Rate of compensation increase	4.00%	4.00%

The Company is not required to make a contribution to fund the defined benefit plan in 2005. There are no payments expected to be made from the plan in the next five years. Payments will commence upon retirement of the key executive.

During 2004, the Company committed to providing a second senior executive with certain post-retirement benefits. The total estimated cost of these benefits is approximately \$450, which the Company is expensing over the expected remaining service life of the executive. During 2004, the Company expensed \$300, which is included in accounts payable and accrued liabilities on the balance sheet. This obligation is currently unfunded.

Plan assets

In 2002, the Company established a retirement compensation arrangement for a senior executive of the company in order to pre-fund the benefits under the defined benefit plan. Under the terms of the retirement compensation arrangement, 50% of all contributions to the plan are required to be deposited with the Canada Revenue Agency. At December 31, 2004, 44% (2003 - 46%) of the plan assets at fair value were deposited in the tax account and 56% (2003 - 54%) were invested. The balance invested consists of the following allocations:

	Target	2004 Actual	2003 Actual
Fixed income	40%	31%	35%
Canadian equity	50%	51%	54%
US equity	5%	9%	4%
International equity	5%	9%	7%

The expected long-term rate of return on said assets is arrived at based on a review of historical rates of similar investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at December 31, 2004 and 2003

(all numbers in thousands except share and per share amounts)

13. RELATED PARTY TRANSACTIONS

During the year, the Company paid rent to two companies controlled by a member of the Board of Directors totalling \$2,773 (US\$2,132) (2003 - \$2,243 ((US\$1,617))). These transactions were conducted in the normal course of business and were accounted for at the exchange amount.

14. CONTINGENCIES AND COMMITMENTS

(a) Operating Leases

The majority of the Company's facilities are subject to operating leases. The Company also has operating lease commitments for equipment. Future lease commitments are shown below. Approximately 90% of the operating lease commitments relate to facility rentals.

	US Denominated	CDN Denominated	Total
2005	\$ 7,850	\$ 2,558	\$ 10,408
2006	5,725	2,075	7,800
2007	4,472	1,905	6,377
2008	3,981	1,887	5,868
2009	3,363	1,894	5,257
Thereafter	-	7,685	7,685
	\$ 25,391	\$ 18,004	\$ 43,395

(b) Lansing operations

During the year ended December 31, 2004, the Company was informed that its major customer would not be renewing the contract related to its Lansing operations, set to expire December 31, 2005. In conjunction with the expiring contract, the cancellation of related contracts held with Tier 1 customers is also expected. Unless new business can be found, the loss of the contract effectively terminates all Lansing operations in 2005. The Lansing operations reported revenues totalling approximately \$24,000 (US\$18,500) in 2004. The Company faces potential exposure to lease, severance and other exit costs. The Company's facility commitments extend to mid year 2006 and 2008. Currently, the Company is not able to quantify its possible loss on exposure, due to uncertainties with regard to breach of contract remedies, sublet and other opportunities. As such, these financial statements do not reflect any adjustments related to the expiring contract.

(c) Interest Rate Swap Agreement

The Company is committed to an interest rate swap agreement on the majority of its US dollar denominated debt which expires December, 2005. The agreement subjects the Company to a fixed rate of 5.85% and the counterparty to a floating three-month US dollar LIBOR rate.

The Company accounts for the interest rate swap as a hedge, and as a result, the carrying value of the financial instrument is not adjusted to reflect its current market value. The net receipts or payments arising are recognized in interest expense.

(d) General

In the ordinary course of business activities, the Company is a plaintiff and has been named as defendant in certain litigation and other claims. Management believes that the resolution of such litigation and claims will not have a material adverse effect on the consolidated position of the Company.

15. SEGMENTED INFORMATION

Geographic Information

	2004		2003	
	Sales	PP&E and Goodwill	Sales	PP&E and Goodwill
Canada	\$ 38,033	\$ 13,842	\$ 43,442	\$ 14,157
United States	55,504	2,554	64,467	14,925
	\$ 93,537	\$ 16,396	\$ 107,909	\$ 29,082

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

17. SUBSEQUENT EVENTS

Sale of facility

Subsequent to year-end, the Company signed an agreement to sell a Whitby area plant for \$2.4 million subject to certain conditions. The business previously performed in the facility was relocated to a new Oshawa area facility in December, 2004. The transaction is expected to close April, 2005. The Company expects to record a gain of approximately \$0.8 million on the sale if it proceeds.

INVESTOR INFORMATION

COMPARATIVE DATA

	Dec. 31 2004	Dec. 31 2003	Dec. 31 2002	Dec. 31 2001	Dec. 31 2000
Operations (\$000's)					
Sales	93,537	107,909	55,919	52,934	49,698
Earnings (loss) from continuing operations	(10,445)	3,745	4,033	3,979	1,942
Net earnings (loss)	(10,445)	3,745	4,033	3,979	3,268
Cash flow from operations	2,991	6,377	9,778	4,301	9,249
Financial (\$000's)					
Total assets	36,039	53,804	42,806	46,660	37,457
Long-term debt	122	9,216	0	1,991	4,874
Shareholders' equity	22,145	34,590	36,994	37,897	18,282
Return on average shareholders' equity (%)	(36.8)	10.5	10.8	14.2	17.0
Per share (\$)					
Earnings (loss) before discontinued operations	(0.55)	0.20	0.21	0.27	0.18
Net earnings (loss)	(0.55)	0.20	0.21	0.27	0.31
Weighted average number of shares outstanding (000's)	19,064	18,939	18,829	14,883	10,606

QUARTERLY DATA

	2004				2003			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales (\$000's)	18,622	19,478	26,789	28,648	27,947	25,359	29,869	24,734
Amortization	831	1,115	1,288	1,164	1,557	1,305	1,159	990
Net earnings (loss)	(12,092)	(126)	716	1,057	666	(172)	2,263	987

COMMON SHARE PRICES

Calendar year	The Toronto Stock Exchange		
	High \$	Low \$	Volume (000's)
2004			
Fourth Quarter	2.35	1.30	346
Third Quarter	3.25	2.10	63
Second Quarter	3.26	2.60	53
First Quarter	3.76	2.25	207
2003			
Fourth Quarter	4.60	2.77	602
Third Quarter	4.50	4.17	621
Second Quarter	4.77	4.10	294
First Quarter	4.64	4.00	163

DIVIDENDS

The Board of Directors approved a dividend policy whereby the Corporation paid regular quarterly dividends at a rate of \$0.07 per common share. The Directors decided to omit dividend payments scheduled for the fourth quarter 2003 and through 2004. The Directors have made no determination as to when to reinstitute dividends or at what rate should they decide to do so.

INVESTOR RELATIONS

Institutional investors, brokers, security analysts and others desiring financial information about Automodular should contact:

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SOLICITORS

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Cames Consulting Inc.

Rae Wallin
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N-Viro Systems Canada Inc.

OFFICERS

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Russell Baranowski
President

Michael Blair
Chief Executive Officer

Diane Erlingher
Corporate Secretary

Christopher Nutt
Vice-President Finance

Rae E. Wallin
Chairman of the Board

ANNUAL MEETING

THE ANNUAL MEETING OF SHAREHOLDERS WILL BE HELD IN CONFERENCE ROOMS C AND D
ONTARIO BAR ASSOCIATION CONFERENCE CENTRE 20 TORONTO STREET, TORONTO, ONTARIO ON
THURSDAY, MAY 5, 2005 AT 10:00A.M.

ALL SHAREHOLDERS ARE ENCOURAGED TO ATTEND



AUTOMODULAR CORPORATION

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