

AUTOMODULAR CORPORATION

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AUTOMODULAR CORPORATION

CONSOLIDATED BALANCE SHEET (Unaudited)

	<u>JUN. 30, 2003</u>	<u>DEC. 31, 2002</u>
ASSETS		
CURRENT		
Cash and equivalents	\$ 2,749,169	\$ 18,310,248
Investments	-	273,299
Receivables	14,641,205	2,504,039
Inventory	341,881	-
Income taxes receivable	966,200	1,108,142
Prepaid expenses	<u>2,318,965</u>	<u>2,288,571</u>
	21,017,420	24,484,299
LONG-TERM INVESTMENTS	277,712	283,268
CAPITAL ASSETS	9,956,168	6,663,247
OTHER ASSETS	<u>26,480,087</u>	<u>13,651,635</u>
	<u>\$ 57,731,387</u>	<u>\$ 45,082,449</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 6,236,577	\$ 5,812,215
Current portion of long-term liabilities	<u>3,500,000</u>	<u>-</u>
	9,736,577	5,812,215
FUTURE INCOME TAXES	559,470	749,909
LONG-TERM LIABILITIES	<u>11,916,340</u>	<u>-</u>
	<u>22,212,387</u>	<u>6,562,124</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK	39,698,186	39,613,186
CONTRIBUTED SURPLUS	35,619	6,898
DEFICIT	(711,633)	(1,099,759)
CUMULATIVE TRANSLATION ADJUSTMENT	<u>(3,503,172)</u>	<u>-</u>
	35,519,000	38,520,325
	<u>\$ 57,731,387</u>	<u>\$ 45,082,449</u>

AUTOMODULAR CORPORATION

**CONSOLIDATED STATEMENT OF DEFICIT
FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(Unaudited)**

	JUN. 30, 2003	JUN. 30, 2002
BALANCE - BEGINNING OF PERIOD	\$ (1,099,759)	\$ (460,082)
Net earnings for the period	3,031,121	2,909,987
Dividends	<u>(2,642,995)</u>	<u>(2,633,195)</u>
BALANCE - END OF PERIOD	\$ <u>(711,633)</u>	\$ <u>(183,290)</u>

AUTOMODULAR CORPORATION

CONSOLIDATED STATEMENT OF EARNINGS FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002 (Unaudited)

	<u>JUN. 30, 2003</u>	<u>JUN. 30, 2002</u>
SALES	\$ 54,602,783	\$ 27,859,199
COST OF SALES AND OTHER EXPENSES	<u>47,053,169</u>	<u>22,994,488</u>
EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING:	<u>7,549,614</u>	<u>4,864,711</u>
Amortization	2,348,523	1,688,827
Interest expense (net)	340,937	115,490
Foreign exchange	361,690	22,419
Other income	<u>(363,607)</u>	<u>(958,593)</u>
	<u>2,687,543</u>	<u>868,143</u>
EARNINGS BEFORE INCOME TAXES	4,862,071	3,996,568
INCOME TAXES	<u>1,830,950</u>	<u>1,086,581</u>
NET EARNINGS FOR THE PERIOD	<u>\$ 3,031,121</u>	<u>\$ 2,909,987</u>
Earnings per share -		
Basic and fully diluted	\$ 0.16	\$ 0.15
Weighted average common shares outstanding -		
Basic	18,884,426	18,790,537
Fully diluted	18,977,848	18,920,791

AUTOMODULAR CORPORATION

CONSOLIDATED STATEMENT OF EARNINGS FOR THE THREE MONTHS ENDED JUNE 30, 2003 AND 2002 (Unaudited)

	<u>JUN. 30, 2003</u>	<u>JUN. 30, 2002</u>
SALES	\$ 29,868,680	\$ 14,235,672
COST OF SALES AND OTHER EXPENSES	<u>25,447,514</u>	<u>11,628,876</u>
EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING:	<u>4,421,166</u>	<u>2,606,796</u>
Amortization	1,259,858	843,004
Interest expense	218,762	50,471
Foreign exchange	(410,484)	22,320
Other income	<u>(208,856)</u>	<u>(97,146)</u>
	<u>859,280</u>	<u>818,649</u>
EARNINGS BEFORE INCOME TAXES	3,561,886	1,788,147
INCOME TAXES	<u>1,349,094</u>	<u>587,229</u>
NET EARNINGS FOR THE PERIOD	<u>\$ 2,212,792</u>	<u>\$ 1,200,918</u>
Earnings per share -		
Basic and fully diluted	\$ 0.12	\$ 0.06
Weighted average common shares outstanding -		
Basic	18,894,900	18,834,288
Fully diluted	19,014,475	18,984,422

AUTOMODULAR CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002

(Unaudited)

	<u>JUN. 30, 2003</u>	<u>JUN. 30, 2002</u>
CASH PROVIDED BY OPERATING ACTIVITIES		
Net earnings for the period	\$ 3,031,121	\$ 2,909,987
Items not requiring an outlay of cash:		
Amortization	2,348,523	1,688,827
Gain on sale of long term investment	(24,444)	(806,582)
Future income taxes	(526,237)	181,135
Compensation expense	28,721	-
Foreign exchange loss	361,690	22,419
Accrued pension cost	83,400	104,552
	<u>5,302,774</u>	<u>4,100,338</u>
Net changes in non-cash working capital:		
Investments	273,299	-
Receivables	(3,260,447)	352,907
Inventory	36,291	-
Prepaid expenses	1,262,057	(199,642)
Accounts payable and accrued liabilities	(2,349,592)	397,002
Income taxes payable	271,945	(165,030)
	<u>1,536,327</u>	<u>4,485,575</u>
FINANCING ACTIVITIES		
Stock options exercised	85,000	416,200
Dividends paid	(2,642,995)	(2,633,195)
Proceeds from long term liabilities	17,500,000	-
Repayment of long term liabilities	(1,750,000)	(5,083,800)
	<u>13,192,005</u>	<u>(7,300,795)</u>
INVESTING ACTIVITIES		
Purchase of capital and other assets	(1,535,973)	(1,711,193)
Business acquisition	(28,783,438)	-
Proceeds on disposal of long-term investments	30,000	935,400
Reduction in loans and long-term receivable	-	421,404
	<u>(30,289,411)</u>	<u>(354,389)</u>
CHANGE IN CASH	(15,561,079)	(3,169,609)
CASH, beginning of period	<u>18,310,248</u>	<u>19,462,922</u>
CASH, end of period	<u>\$ 2,749,169</u>	<u>\$ 16,293,313</u>

AUTOMODULAR CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED JUNE 30, 2003 AND 2002

(Unaudited)

	<u>JUN. 30, 2003</u>	<u>JUN. 30, 2002</u>
CASH PROVIDED BY OPERATING ACTIVITIES		
Net earnings for the period	\$ 2,212,792	\$ 1,200,918
Items not requiring an outlay of cash:		
Amortization	1,259,858	843,004
Gain on sale of long term investment	(7,079)	(40,652)
Compensation expense	16,374	-
Future income taxes	(232,837)	121,581
Foreign exchange loss	(410,484)	22,320
Accrued pension cost	41,675	57,927
	<u>2,880,299</u>	<u>2,205,098</u>
Net changes in non-cash working capital:		
Investments	244,395	-
Receivables	933,899	1,113,686
Inventory	98,023	-
Prepaid expenses	(229,052)	(187,410)
Accounts payable and accrued liabilities	(328,790)	344,093
Income taxes payable	(157,224)	(188,603)
	<u>3,441,550</u>	<u>3,286,864</u>
FINANCING ACTIVITIES		
Stock options exercised	35,000	123,000
Dividends paid	(1,321,848)	(1,318,348)
Repayment of long term liabilities	(875,000)	-
	<u>(2,161,848)</u>	<u>(1,195,348)</u>
INVESTING ACTIVITIES		
Purchase of capital and other assets	(622,801)	(636,760)
Business acquisition	66,059	-
Proceeds on disposal of long-term investments	10,000	50,000
Reduction in loans and long-term receivable	-	514
	<u>(546,742)</u>	<u>(586,246)</u>
CHANGE IN CASH	732,960	1,505,270
CASH, beginning of period	2,016,209	14,788,043
CASH, end of period	<u>\$ 2,749,169</u>	<u>\$ 16,293,313</u>

AUTOMODULAR CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated interim financial statements should be read in conjunction with the Company's most recent annual audited consolidated financial statements as they do not conform in all respects to the requirements of Canadian Generally Accepted Accounting Principles for annual financial statements. The consolidated interim financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements except as follows:

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.

Change in accounting policy - Stock-Based compensation

Effective January 1, 2003 the Company adopted the fair value method of accounting for stock options. The comparative figures have been restated to show the effect as though the Company had adopted the fair value method of accounting for stock options upon adoption of Section 3870 effective January 1, 2002.

Foreign currency

The Company considers Tec-Mar Distribution Services, Inc. to be a self-sustaining foreign operation. Assets and liabilities 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.

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. ("Tec-Mar") located in Michigan. The transaction closed January 31, 2003.

The adjusted purchase price was USD\$23,853,695 (CDN\$36,820,561) and was based upon USD\$18,000,000 plus the excess of adjusted working capital over USD\$6,400,000, which was USD\$5,853,695. The purchase price will be increased for 50% of any Tec-Mar EBITDA (as defined in the agreement) that exceeds USD\$4,500,000 in each of the four years from 2003 through 2006 inclusive. If Tec-Mar EBITDA falls below USD\$4,500,000 in any year such deficit will be deducted from the next year's EBITDA. Total cash consideration and acquisition costs presented below also includes USD\$335,732 (CDN\$518,238) in direct costs incurred relating to the acquisition.

The purchase price was paid in cash on closing and was funded by a CDN\$17,500,000 non-revolving term credit facility (see Note 3) and a US\$5,000,000 bridge credit facility. The bridge credit facility was repaid following the closing of the transaction.

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 is as follows:

AUTOMODULAR CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

2. BUSINESS ACQUISITION (cont.)

Assets (including cash of \$8,555,361)	\$ 24,717,859
Identifiable intangible assets	4,630,800
Liabilities	<u>(3,320,307)</u>
Net identifiable assets acquired	26,028,352
Goodwill	<u>11,310,447</u>
Total cash consideration and acquisition costs	<u><u>\$ 37,338,799</u></u>

An outside party was retained to analyze the purchase price and identify and quantify any intangible assets acquired. Their analysis resulted in the identification of USD\$3,000,000 of production contracts in place. The average length of the contracts is four years, and accordingly the asset will be amortized on a straight-line basis over that term.

3. LONG-TERM LIABILITY

	JUNE 30, 2003	DEC. 31, 2002
Credit facility, repayable in quarterly instalments of \$875,000, including principal and interest, maturing December 31, 2005, secured by a general security agreement over the assets of the Company.	\$ 15,416,340	-
Deduct: Current portion	<u>3,500,000</u>	<u>-</u>
	<u>\$ 11,916,340</u>	<u>\$ -</u>

The credit facility was originally a non-revolving term credit facility bearing interest at prime rate + 0.75%. During the period, a portion of the loan was converted to US\$8,300,000. The effective interest rate at June 30, 2003 was approximately 5.75%.

Interest expense on the loan during the period was \$419,014.

The company also has a \$5,000,000 revolving term credit facility available to it. Interest is payable on this facility at prime rate + 0.75%.

The principal repayments of the long-term liability are as follows:

2003	\$ 1,750,000
2004	3,500,000
2005	<u>10,166,340</u>
	<u><u>\$15,416,340</u></u>

AUTOMODULAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

4. CAPITAL STOCK

During the current year, 30,000 stock options were exercised by directors and officers of the company for cash proceeds of \$85,000.

Employees were granted 155,000 stock options during the first quarter. These options all vest evenly over a period of five years except 75,000 options granted which vest evenly over three years. No options expired during the quarter.

The Company has elected to recognize the cost of its stock-based compensation based on the estimated fair value of the stock options granted. The fair value of options granted during the current year is \$54,800. Total compensation expense has been recognized during the year of \$28,721 relating to options granted during 2002 and the current period.

The fair value of stock options granted during the current period was estimated using the Black-Scholes option pricing model on the date of grant with the following weighted average assumptions:

Stock price at grant date	\$	4.15
Exercise price	\$	4.15
Average life of options (years)		3.6
Expected stock price volatility		20%
Expected dividend yield		6.75%
Risk-free interest rate		3.85%

5. CASH FLOW SUPPLEMENTAL INFORMATION

FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002

	<u>JUNE 30, 2003</u>	<u>JUNE 30, 2002</u>
Interest (net)	\$340,937	\$ 115,490
Income taxes paid	<u>\$1,863,176</u>	<u>\$ 1,070,476</u>

FOR THE THREE MONTHS ENDED JUNE 30, 2003 AND 2002

	<u>JUNE 30, 2003</u>	<u>JUNE 30, 2002</u>
Interest (net)	\$218,762	\$ 21,535
Income taxes paid	<u>\$1,436,617</u>	<u>\$ 654,073</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

6. COMPARATIVE FIGURES

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