

# AUTOMODULAR CORPORATION

## CONTENTS

	<b><u>Page</u></b>
<b>FINANCIAL STATEMENTS</b>	
Consolidated Balance Sheet	1
Consolidated Statement of Deficit	2
Nine Month Consolidated Statement of Earnings	3
Three Month Consolidated Statement of Earnings	4
Nine Month Consolidated Statement of Cash Flows	5
Three Month Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7

# AUTOMODULAR CORPORATION

## CONSOLIDATED BALANCE SHEET (Unaudited)

	<u>SEPT. 30, 2003</u>	<u>DEC. 31, 2002</u>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and equivalents	\$ -	\$ 18,310,248
Investments	-	273,299
Receivables	16,577,561	2,504,039
Inventory	407,046	-
Income taxes receivable	1,279,275	1,108,142
Prepaid expenses	<u>2,642,566</u>	<u>2,288,571</u>
	20,906,448	24,484,299
<b>LONG-TERM INVESTMENTS</b>	256,166	283,268
<b>CAPITAL ASSETS</b>	9,818,275	6,663,247
<b>OTHER ASSETS</b>	<u>26,413,768</u>	<u>13,651,635</u>
	<u>\$ 57,394,657</u>	<u>\$ 45,082,449</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank indebtedness	\$ 50,701	\$ -
Accounts payable and accrued liabilities	6,908,102	5,812,215
Current portion of long-term liabilities	<u>3,678,636</u>	<u>-</u>
	10,637,439	5,812,215
<b>FUTURE INCOME TAXES</b>	376,118	749,909
<b>LONG-TERM LIABILITIES</b>	<u>10,510,155</u>	<u>-</u>
	<u>21,523,712</u>	<u>6,562,124</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b>	40,285,686	39,613,186
<b>CONTRIBUTED SURPLUS</b>	60,619	6,898
<b>DEFICIT</b>	(2,077,236)	(1,099,759)
<b>CUMULATIVE TRANSLATION ADJUSTMENT</b>	<u>(2,398,124)</u>	<u>-</u>
	<u>35,870,945</u>	<u>38,520,325</u>
	<u>\$ 57,394,657</u>	<u>\$ 45,082,449</u>

# AUTOMODULAR CORPORATION

CONSOLIDATED STATEMENT OF DEFICIT  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002  
(Unaudited)

	SEPT. 30, 2003	SEPT. 30, 2002
<b>BALANCE - BEGINNING OF PERIOD</b>	\$ (1,099,759)	\$ (460,082)
Net earnings for the period	2,996,115	4,206,192
Dividends	<u>(3,973,592)</u>	<u>(3,952,942)</u>
<b>BALANCE - END OF PERIOD</b>	\$ <u><u>(2,077,236)</u></u>	\$ <u><u>(206,832)</u></u>

# AUTOMODULAR CORPORATION

## CONSOLIDATED STATEMENT OF EARNINGS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002 (Unaudited)

	<u>SEPT. 30, 2003</u>	<u>SEPT. 30, 2002</u>
<b>SALES</b>	\$ 79,962,098	\$ 41,433,066
<b>COST OF SALES AND OTHER EXPENSES</b>	<u>70,917,451</u>	<u>34,698,105</u>
<b>EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING:</b>	<u>9,044,647</u>	<u>6,734,961</u>
Amortization	3,815,224	2,543,398
Interest expense (net)	539,987	108,610
Foreign exchange	370,875	-
Other income	<u>(488,716)</u>	<u>(1,681,355)</u>
	<u>4,237,370</u>	<u>970,653</u>
<b>EARNINGS BEFORE INCOME TAXES</b>	4,807,277	5,764,308
<b>INCOME TAXES</b>	<u>1,811,162</u>	<u>1,558,116</u>
<b>NET EARNINGS FOR THE PERIOD</b>	\$ <u><u>2,996,115</u></u>	\$ <u><u>4,206,192</u></u>
Earnings per share -		
Basic and fully diluted	\$ 0.16	\$ 0.22
Weighted average common shares outstanding -		
Basic	18,902,804	18,814,907
Fully diluted	19,034,868	18,960,631

# AUTOMODULAR CORPORATION

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

	<u>SEPT. 30, 2003</u>	<u>SEPT. 30, 2002</u>
<b>SALES</b>	\$ 25,359,315	\$ 13,573,867
<b>COST OF SALES AND OTHER EXPENSES</b>	<u>23,864,282</u>	<u>11,681,198</u>
<b>EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING:</b>	<u>1,495,033</u>	<u>1,892,669</u>
Amortization	1,466,701	854,571
Interest expense	199,050	(6,880)
Foreign exchange	9,185	-
Other income	<u>(125,109)</u>	<u>(722,762)</u>
	<u>1,549,827</u>	<u>124,929</u>
<b>EARNINGS BEFORE INCOME TAXES</b>	<u>(54,794)</u>	1,767,740
<b>INCOME TAXES</b>	<u>(19,788)</u>	<u>471,535</u>
<b>NET EARNINGS FOR THE PERIOD</b>	<u>\$ (35,006)</u>	<u>\$ 1,296,205</u>
 Earnings per share -		
Basic and fully diluted	\$ 0.00	\$ 0.07
 Weighted average common shares outstanding -		
Basic	18,938,961	18,862,494
Fully diluted	19,074,724	18,989,206

# AUTOMODULAR CORPORATION

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

(Unaudited)

	<u>SEPT. 30, 2003</u>	<u>SEPT. 30, 2002</u>
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net earnings for the period	\$ 2,996,115	\$ 4,206,192
<b>Items not requiring an outlay of cash:</b>		
Amortization	3,815,224	2,543,398
Gain on sale of long term investment	(127,898)	(836,460)
Future income taxes	(283,956)	187,950
Compensation expense	53,721	-
Gain on sale of capital assets	-	(495,021)
Foreign exchange loss	370,875	-
Accrued pension cost	125,100	139,878
	<u>6,949,181</u>	<u>5,745,937</u>
<b>Net changes in non-cash working capital:</b>		
Investments	273,299	-
Receivables	(3,952,617)	19,115
Inventory	(103,109)	-
Prepaid expenses	971,221	(61,527)
Accounts payable and accrued liabilities	(2,411,713)	1,906,824
Income taxes payable	(117,738)	(85,829)
	<u>1,608,524</u>	<u>7,524,520</u>
<b>FINANCING ACTIVITIES</b>		
Stock options and warrants exercised	672,500	464,200
Dividends paid	(3,973,592)	(3,952,942)
Proceeds from long term liabilities	17,500,000	-
Repayment of long term liabilities	(2,647,772)	(5,083,800)
	<u>11,551,136</u>	<u>(8,572,542)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital and other assets	(2,769,926)	(3,859,537)
Business acquisition	(28,905,683)	-
Proceeds on disposal of capital assets	-	977,862
Proceeds on disposal of long-term Investments	155,000	970,315
Reduction in loans and long-term receivable	-	421,783
	<u>(31,520,609)</u>	<u>(1,489,577)</u>
<b>CHANGE IN CASH</b>	<u>(18,360,949)</u>	<u>(2,537,599)</u>
<b>CASH, beginning of period</b>	<u>18,310,248</u>	<u>19,462,922</u>
<b>CASH (INDEBTEDNESS) , end of period</b>	<u>\$ (50,701)</u>	<u>\$ 16,925,323</u>

# AUTOMODULAR CORPORATION

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

(Unaudited)

	<u>SEPT. 30, 2003</u>	<u>SEPT. 30, 2002</u>
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net earnings for the period	\$ (35,006)	\$ 1,296,205
<b>Items not requiring an outlay of cash:</b>		
Amortization	1,466,701	854,571
Gain on sale of long term investment	(103,454)	(29,878)
Compensation expense	25,000	-
Future income taxes	242,281	6,815
Gain on sale of capital assets	-	(495,021)
Foreign exchange loss	9,185	-
Accrued pension cost	41,700	35,326
	<u>1,646,407</u>	<u>1,668,018</u>
<b>Net changes in non-cash working capital:</b>		
Receivables	(692,170)	(333,792)
Inventory	(139,400)	-
Prepaid expenses	(290,836)	138,115
Accounts payable and accrued liabilities	(184,366)	1,487,403
Income taxes payable	(389,683)	79,201
	<u>(50,048)</u>	<u>3,038,945</u>
<b>FINANCING ACTIVITIES</b>		
Stock options exercised	587,500	48,000
Dividends paid	(1,330,597)	(1,319,747)
Repayment of long term liabilities	(875,000)	-
	<u>(1,640,869)</u>	<u>(1,271,747)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital and other assets	(1,233,953)	(2,148,344)
Proceeds on disposal of capital assets	-	977,862
Reduction in loans and long-term receivable	-	379
Proceeds on disposal of long-term investments	125,000	34,915
	<u>(1,108,953)</u>	<u>(1,135,188)</u>
<b>CHANGE IN CASH</b>	<b>(2,799,870)</b>	<b>632,010</b>
<b>CASH, beginning of period</b>	<b>2,749,169</b>	<b>16,293,313</b>
<b>CASH (INDEBTEDNESS) , end of period</b>	<b>\$ <u>(50,701)</u></b>	<b>\$ <u>16,925,323</u></b>

# 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 \$414,928 (CDN \$640,483) 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 USD \$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>11,432,692</u>
Total cash consideration and acquisition costs	<u><u>\$ 37,461,044</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 LIABILITIES

	SEPT. 30, 2003	DEC. 31, 2002
Credit facility, repayable in quarterly principal instalments of \$875,000, maturing December 31, 2005, secured by a general security agreement over the assets of the Company.	\$ 13,610,021	-
Capital leases with an average interest rate of 7.5%, repayable in monthly instalments of \$18,715 (USD \$13,864), with various maturities secured by equipment with an original capital cost of \$601,542 (USD \$445,620).	578,770	-
Deduct: Current portion	<u>(3,678,636)</u>	<u>-</u>
	<u><u>\$ 10,510,155</u></u>	<u><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 USD \$8,300,000. The USD portion pays interest tied to the LIBOR rate. The effective interest rate on the credit facility as at September 30, 2003 was approximately 5.25%.

At September 30, 2003 the Company was in breach of one of its bank covenants. Subsequent to the quarter end, the bank waived the covenant breach.

# AUTOMODULAR CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 3. LONG-TERM LIABILITIES (cont.)

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%.

Interest expense on long term liabilities for the year to date is \$625,254.

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

2003	\$ 923,650
2004	3,702,485
2005	9,437,506
2006	<u>125,150</u>
	<u>\$14,188,791</u>

### 4. CAPITAL STOCK

During the current year, 55,000 stock options were exercised by directors and officers of the company for cash proceeds of \$172,500. During the current quarter, 100,000 warrants were exercised for cash proceeds of \$500,000. Each warrant entitled the holder to one common share.

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 \$53,721 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%

# AUTOMODULAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 5. CASH FLOW SUPPLEMENTAL INFORMATION

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

	<u>SEPT. 30, 2003</u>	<u>SEPT. 30, 2002</u>
Interest (net)	\$539,987	\$108,610
Income taxes paid	<u>\$2,659,176</u>	<u>\$ 1,455,959</u>

#### FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

	<u>SEPT. 30, 2003</u>	<u>SEPT 30, 2002</u>
Interest (net)	\$199,050	\$ (6,880)
Income taxes paid	<u>\$412,586</u>	<u>\$ 385,519</u>

### 6. COMPARATIVE FIGURES

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