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.

Smith, Nixon + Co. LLP

**TORONTO, ONTARIO**
February 24, 2005

**CHARTERED ACCOUNTANTS**

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 |
| | | 17,808 | | 20,152 |
| 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 |
| | $ | 36,039 | $ | 53,804 |
| **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 |
| | | 13,772 | | 9,998 |
| Long-term liabilities *(Note 7)* | | 122 | | 9,216 |
| | | 13,894 | | 19,214 |
| 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) |
| | | 22,145 | | 34,590 |
| | $ | 36,039 | $ | 53,804 |

Signed on behalf of the Board

| | |
|---|---|
| "Michael F. Blair" | "Rae E. Wallin" |
| Director | Director |



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

## 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 *(Note 9)* | (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** *(Note 10)* | 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 *(Note 8(c))* | 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.*

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 *(Note 11)* | 15,519 | 5,112 |
| Net change in non-cash working capital *(Note 11)* | (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 *(Note 2)* | (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 |

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

(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:

| *Increase (decrease)* | | **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 | $ | 135 |
| Earnings per share – basic and diluted | $ | 0.01 |

**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.

(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 |

(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 |
| | $ 20,660 | $ 13,678 | $ 6,982 | $ 9,481 |

**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 |
| | $ 14,869 | $ 3,638 | $ 11,231 | $ 23,928 |

**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**

| | 2004 | 2003 |
|---|---|---|
| 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. | $ 8,153 | $ 12,337 |
| 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). | 361 | 825 |
| | 8,514 | 13,162 |
| Deduct: Current portion | 8,392 | 3,946 |
| | $ 122 | $ 9,216 |

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 |
| | $ 8,514 |

(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 | 12,064,233 | 19,010 |

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

| | Number of Shares | Amount |
|---|---|---|
| Balance – December 31, 2003 and 2004 | 1,504,365 | $ 21,376 |

| | | |
|---|---|---|
| **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 |
| | 680,000 | | | |

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 |
| | $ 422 | $ 810 |

(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 |
| | $ 18 | $ 210 |

**(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) |
| | $ 189 | $ 2,340 |

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

| | 2004 | 2003 |
|---|---|---|
| Current provision | $ (819) | $ 2,738 |
| Future provision | 1,008 | (398) |
| | $ 189 | $ 2,340 |

**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 |
| | $ 15,519 | $ 5,112 |

**(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 |
| | $ (2,083) | $ (2,480) |

**(c) Supplemental information**

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

(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 |
| | 153 | 145 |
| Defined contribution plans | 666 | 744 |
| **Total pension expense** | $ 819 | $ 889 |
| | | |
| **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** | $ 2,089 | $ 1,847 |
| | | |
| **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** | $ 1,216 | $ 1,074 |
| | | |
| **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** | $ 1,273 | $ 1,301 |

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.

(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.