

Management's Discussion and Analysis ("MD&A")

The following MD&A of our consolidated operating results and financial position is for the years ended December 31, 2005 and 2004 and should be read in conjunction with the accompanying audited 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. Unless the content otherwise indicates, references to "Automodular" or to the "Company" refer to Automodular Corporation and its direct and indirect subsidiaries.

COMPANY AND INDUSTRY OVERVIEW

Automodular is a sequencer and sub-assembler of modules that are installed in cars and trucks assembled by North American Original Equipment Manufacturers ("OEMs") 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 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 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, although some of our current contracts are for as long as 8 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 final 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 to use our services rather than 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 customers 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 its business development efforts on more complex sub-assembly services which contain a higher value-added element.

In 2005, for the first time in the Company's history, Automodular was awarded contracts from an OEM other than General Motors Corporation and General Motors of Canada Limited (collectively "GM"). Ford Motor Company of Canada, Limited ("Ford") awarded 3 major contracts to the Company to supply sequenced power train, suspension and instrument panel sub-assemblies for the new Ford Edge and Lincoln MKX programs recently announced for the Ford assembly plant located in Oakville, Ontario. The Company continues to seek to generate new business with other OEMs in order to further diversify its customer base.

At present, we employ in excess of 800 people in 7 operating facilities servicing 6 GM assembly plants. In 2005, we operated approximately 1.2 million square feet of plant space and provided sequencing and sub-assembly services for 1.5 million vehicles.

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 currently provides services for the following platforms:

Truck plants	Oshawa, ON	Chevrolet Silverado GMC Sierra
	Pontiac, MI	Chevrolet Silverado GMC Sierra
Car plants	Oshawa, ON (2)	Chevrolet Impala Chevrolet Monte Carlo Pontiac Grand Prix Buick Allure Buick Lacrosse
	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.

During 2005 several automotive suppliers were forced to undergo restructuring either through Chapter 11 in the United States or receivership in Canada. These situations may impact the Company in two ways; first, the Company may be exposed to credit risk for those contracts with the Tier 1 suppliers; second, such filings create a level of unease in the lending community. This makes it more difficult for the Company to finance capital and pre-production costs of new contract awards.

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 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 to assess operating performance. EBITDA is used as a financial measurement when evaluating operating performance and is a measure of cash operating earnings that is widely used in the automotive industry. The calculation of EBITDA is defined under the Results of Operations section of this MD&A. Parts per million ("PPM") defect rates are used as a measurement to evaluate the quality performance of the Company.

2005 OVERVIEW

The current year was challenging for the Company. Sales decreased from \$93.5 million in 2004 to \$79.2 million in 2005 and, combined with a gain on the settlement of a legal suit, resulted in a net income for the year of \$11.0 million or \$0.54 per share compared to a loss of \$10.4 million or \$0.55 per share in 2004.

Included in net earnings for the current year were three non-recurring items:

- An agreement was reached on some outstanding litigation whereby the Company received pre-tax \$11 million, \$10.0 million on an after-tax basis.
- Automodular sold a surplus facility for \$2.5 million and recorded a gain of \$0.8 million on an after-tax basis.
- The Company negotiated an agreement to settle its remaining lease obligations on a redundant facility in Lansing, Michigan. Combined with other severance costs, the Company recorded a pre-tax charge of \$2.3 million against earnings, \$1.5 million on an after-tax basis.

Accomplishments included the following:

- During the first quarter, the Company received new and renewal contract awards from North American OEMs and their Tier 1 suppliers totaling more than \$400 million. Significant time and resources are being allocated to these contract awards. The largest portion of the new contracts is with Ford. To facilitate these contracts, the Company entered into a long-term lease for a 265,000 square foot facility in Oakville, Ontario. The new facility will commence commercial operations in 2006.
- The Company successfully completed the shipment of prototype units from a temporary facility in Michigan. The prototype units were produced in connection with the award of business for the Company's new Oakville facility.
- The Company negotiated a union contract for employees employed by its Ohio-based operations. An initial three-year contract was reached with the

International Union, United Automobile, Aerospace and Agricultural Equipment Workers of America ("UAW").

- The Company sold a surplus Whitby area plant for approximately \$2.5 million, recording a gain of approximately \$0.8 million, net of tax. The business previously performed in the facility had been relocated to a new Oshawa area facility in December, 2004.
- During the second quarter, the Company completed a rights offering which generated net cash proceeds of \$2.2 million. The proceeds from the offering were used to partially fund capital requirements associated with new business awards.
- The Company reached an agreement to settle outstanding litigation for payment to the Company in the amount of \$11 million. The settlement was received in October, 2005. The proceeds from the settlement are being used to partially fund capital requirements associated with new business awards.
- In order to support the new business awards, the Company signed a banking agreement with its corporate bankers providing an extension of its \$5 million term loan and a renewal of the \$5 million term facility. Subsequent to year-end, Automodular signed a \$6 million equipment financing agreement for assets to be purchased for the new Oakville plant.

Challenges included the following:

- During the first and second quarters, as a result of poor demand for certain vehicles for which the Company provides services, the related GM plants idled production facilities to rebalance inventory levels. This unexpected downtime resulted in lower earnings since a substantial portion of the Company's expenses are fixed and revenues are substantially derived from variable price contracts.
- The Company also reduced its Pontiac operations from a three-shift operation to a two-shift operation as a result of the elimination of one shift of production at GM's Pontiac truck assembly plant effective January, 2005.

- The transition of the Company's Lansing, Michigan business to a competitor was ongoing during 2005. The transition is expected to continue until the second quarter of 2006, at which time, assuming no new business awards, the Company will no longer operate out of Lansing, Michigan.
- The Company's quality performance declined in 2005. PPM defect rates increased from 16 in 2004 to 24 during 2005. However, the Company continues to meet GM's definition of a "world class" supplier, which is defined as a PPM defect rate of less than 25. Part of the defect rate increase is due to the changing mix of work for which the Company provides services. Lower complexity sequencing work typically yields PPM rates below 10. Some Company plants have gone for more than a year without shipping a defect. On the other hand, more complex work provides a greater likelihood of an error being made. The majority of the contracts that have not been renewed over the past 12-18 months relate to lower level sequencing work. PPM rates were also higher during the launch or rampup phase for the Company's Oshawa car operations during 2005. Significant resources are being allocated to ensure that PPM results are improved and the related cost of quality is minimized.

RESULTS OF OPERATIONS

The Company's comparative consolidated operating results for the years ended December 31, 2005 and 2004 are as follows:

(all numbers in thousands)	2005 % of sales		2004 % of sales	
Sales	\$ 79,210	100.0%	\$ 93,537	100.0%
Cost of goods sold and other expenses	74,196	93.7%	86,970	93.0%
Exit costs	2,303	2.9%	1,004	1.0%
Earnings before the following:	2,711	3.4%	5,563	6.0%
Amortization	2,854	3.6%	4,398	4.7%
Interest expense	408	0.5%	688	0.7%
Stock-based compensation	24	0.0%	25	0.0%
Foreign exchange	(278)	-0.4%	(218)	-0.2%
Other income	(12,153)	-15.3%	(422)	-0.4%
	(9,145)	-11.6%	4,471	4.8%
	11,856	15.0%	1,092	1.2%
Write-off of goodwill and intangible assets	-	-	11,348	12.1%
Earnings (loss) before income taxes	11,856	15.0%	(10,256)	-11.0%
Income taxes	814	1.0%	189	0.2%
Net earnings (loss) for the year	\$ 11,042	14.0%	\$ (10,445)	-11.2%

Sales

Automodular's sales decreased from \$93.5 million in 2004 to \$79.2 million in 2005.

Canadian operations – Sales decreased to \$35.1 million from \$38.0 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 during 2004 resulted in a decrease in sales by the Company's former Wilmington operation of US\$3.0 million (CDN \$3.9 million), which represents the entire 2004 annual sales for the Company's Delaware division. Michigan-based revenues in 2005 were US\$30.5 million (CDN \$37.0 million) which reflected a decrease of US\$9.2 million compared to 2004 as a result of the continuing transition of the Company's business to a competitor, the expiry of Lansing car assembly plant contracts in 2004 and the elimination of the third shift in our Pontiac, Michigan truck operations. The decrease in sales in our US operations was partially offset by the commencement of our Ohio-based operations, with revenues of US\$4.8 million (CDN \$5.8 million) for the year.

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 2005 when translated into Canadian dollars was \$1 Canadian being equivalent to US\$0.83. This compared to a rate of US\$0.77 in 2004. The impact on US dollar revenues in 2005 when translated into Canadian dollars was approximately \$3.2 million Canadian.

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 and non-cash items". *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 \$2.9 million from \$5.6 million in 2004 to \$2.7 million in 2005.

Canadian operations – EBITDA of \$1.9 million was \$0.5 million lower than 2004 as a result of significant unexpected downtime experienced in the first half of 2005.

US operations – EBITDA of \$0.8 million (US\$0.7 million) was \$2.3 million (US\$1.9 million) lower than 2004 due to a \$1.7 million (US\$1.4 million) charge to settle lease obligations, in addition to related severance and other closeout costs. Profits from the Company's Ohio operations were offset by a lower contribution from its Pontiac operations.

Amortization

Amortization decreased \$1.5 million compared to 2004 primarily as a result of the write-off of the intangible assets associated with the Company's Michigan-based operations during the fourth quarter in 2004.

Interest

Interest expense in the current year decreased by \$0.3 million to \$0.4 million, as compared to 2004. This decrease is as a result of the repayment of the term credit facility used to acquire the Company's Michigan-based operations in 2003. Interest expense for the current year was further reduced due to the decreased use of the Company's revolving credit facility .

Foreign Exchange

The Company recognized a foreign exchange gain of \$0.3 million in the current year compared to a gain of \$0.2 million in 2004. The foreign exchange gain relates to the repayment of the Company's term credit facility, which is substantially denominated in US dollars, combined with the continued strengthening of the Canadian dollar versus the US dollar.

Other Income

Other income increased from 2004 by \$11.7 million. During 2005, the Company reached an agreement to settle outstanding litigation for payment to Automodular of \$11 million. Additionally, the Company recorded a gain of \$1.1 million on the sale of its Whitby facility.

Write-off of Goodwill and Intangible Assets

During the fourth quarter of 2004, the Company experienced two events that resulted in the write-off of the

goodwill and intangible assets relating to its Michigan operations. 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. In the absence of new business awards, the Company closed 2 of its Lansing facilities during 2005 and will close the final Lansing facility during the second quarter of 2006. The second event was the change at the Pontiac, Michigan 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.

Income Taxes

A comparison of effective tax rates from year to year is not meaningful. In 2004, the write-off of the goodwill and intangible assets and the amortization of the intangible assets were not deductible for income tax purposes. In 2005, the majority of the gain on the settlement of outstanding litigation is not taxable.

HISTORICAL ANNUAL DATA

(all numbers in thousands except per share amounts)

	2005	2004	2003
Sales	\$ 79,210	\$ 93,537	\$ 107,909
Net earnings (loss)	\$ 11,042	\$ (10,445)	\$ 3,745
Earnings per share			
Basic	\$ 0.54	\$ (0.55)	\$ 0.20
Diluted	\$ 0.54	\$ (0.55)	\$ 0.20
Total assets	\$ 51,328	\$ 36,039	\$ 53,804
Total long-term liabilities	\$ 2,502	\$ 122	\$ 9,216
Cash dividends per share	\$ -	\$ -	\$ 0.21

The variances between 2005 and 2004 are discussed in the previous section.

2004 Versus 2003 Results

The decrease in sales between 2004 and 2003 was due to the non-extension of certain contracts with Oshawa car plant operations and overall lower production volumes in our Canadian operations, combined with the cancellation of the Saturn-L vehicle in our Delaware operation.

Net earnings decreased significantly due to the write-off of goodwill and intangible assets relating to the Company's Michigan operations. Also impacting earnings was the non-extension of certain contracts with Oshawa car plant operations, which resulted in substantial labour costs being incurred relating to the reallocation of employees throughout the organization.

Total assets decreased by approximately \$17.8 million in 2004 due to the write-off of goodwill and intangible assets, as described above, and the closure of the Company's Delaware operation.

Long-term liabilities decreased significantly in 2004 as the Company's term facility was up for renewal as at December 31, 2005. As such, the entire balance was classified as a current liability as at December 31, 2004.

HISTORICAL QUARTERLY DATA – ROLLING EIGHT QUARTERS

(all numbers in thousands except per share amounts)

	2005				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	\$19,306	\$19,564	\$20,680	\$19,660	\$28,648	\$26,789	\$19,478	\$18,622
Net earnings (loss)	\$523	\$572	\$644	\$9,303	\$1,057	\$716	\$(126)	\$(12,092)
Per share	\$0.03	\$0.03	\$0.03	\$0.45	\$0.06	\$0.04	\$(0.01)	\$(0.64)

As previously described, the first quarter of 2005 included a gain on the sale of surplus real estate of \$0.8 million after-tax and the fourth quarter included a gain on the litigation settlement of \$10.0 million after-tax.

On an operating basis, EBITDA* increased from quarter to quarter in 2005 (excluding Lansing close out costs of US\$1.9 million (CDN \$2.3 million) recorded in Q4). This was due to the significant reduction in down-weeks in the third and fourth quarters coupled with revised pricing on new and renewal contracts.

Fourth Quarter

The fourth quarter generated an EBITDA* loss of \$0.5 million against an EBITDA* loss of \$0.2 million in the previous year. The 2005 EBITDA* loss is due to a US\$1.9 million (CDN \$2.3 million) charge relating to exit costs associated with the loss of the Lansing, Michigan operations.

The loss of \$12.1 million for the fourth quarter of 2004 was 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)

	2005	2004
Net earnings (loss)	\$ 11,042	\$ (10,445)
Non-cash items	1,640	15,519
Non-cash working capital	1,836	(2,083)
Cash from operations	\$ 14,518	\$ 2,991

The increase in cash from operations is due to the gain on the lawsuit settlement.

Investing Activities

(all numbers in thousands)

	2005	2004
Purchase of property, plant and equipment (net)	\$ (3,764)	\$ (1,808)
Funding of pension plan	-	(125)
Proceeds on disposal of long-term investments	-	611
Business acquisition	-	(375)
	\$ (3,764)	\$ (1,697)

*See Earnings before Interest, Taxes, Amortization and Other Non-Cash Items section

Net purchases of property, plant and equipment (purchases less proceeds on dispositions) increased by \$2.0 million. This is due to increased purchases relating to the contract awarded by the Company's new OEM customer, partially offset by the proceeds received on the sale of the Company's Whitby facility. The Company was not required to make a payment to fund the pension plan in 2005. Automodular disposed of the balance of its investment portfolio in 2004. Under the terms of a release signed in the current year, there are no further earn-out payments to be made relating to the acquisition of the Company's Michigan-based operations.

Financing Activities
(all numbers in thousands)

	2005	2004
Issue of common shares	\$ 2,180	\$ -
Repayment of long-term liabilities	(3,442)	(3,938)
Cash from financing activities	<u>\$ (1,262)</u>	<u>\$ (3,938)</u>

During the current year, the Company completed a rights offering to partially finance the capital requirements of certain new contracts.

Unused And Available Financing Resources

Automodular has net cash and cash equivalents on hand at year end of \$10.3 million compared to cash on hand at the end of 2004 of \$1.0 million. The Company has available to it a \$5 million operating line. Subsequent to year end, Automodular signed a \$6 million equipment financing agreement to facilitate the purchase of capital assets required for the new Oakville program.

Capital Expenditures

The Company expects to spend approximately \$22 million relating to its new Oakville program prior to the start of commercial production in late 2006. At December 31, 2005 approximately \$4.2 million was already spent. Automodular expects to finance the balance of the expenditures through the cash resources and credit facilities referred to above coupled with cash flow generated from operations.

At December 31, 2005, the Company had committed to contracts for equipment totaling \$9.1 million to be used in its Oakville facility.

Off Balance Sheet Financing

The Company's off balance sheet financing includes operating lease commitments. Total commitments as at December 31, 2005 as disclosed in *Note 17* of the consolidated financial statements are \$47.2 million.

Financial Instruments

The Company is committed to an interest rate swap agreement on the majority of its US dollar denominated debt which expires December, 2007. The agreement subjects the

Company to a fixed rate of 8.7% and the counterparty to a floating three-month US dollar LIBOR rate plus 3.5%.

Contractual Obligations Due By Year
(all numbers in thousands)

	2006	2007	2008	2009	2010	Thereafter
Long-term debt	\$ 2,326	\$ 2,502	\$ -	\$ -	\$ -	\$ -
Capital leases	\$ 124	\$ -	\$ -	\$ -	\$ -	\$ -
Operating leases	\$ 7,708	\$ 6,917	\$ 6,830	\$ 6,697	\$ 3,527	\$ 15,557
	\$ 10,158	\$ 9,419	\$ 6,830	\$ 6,697	\$ 3,527	\$ 15,557

Shareholders' Equity

Shareholders' equity increased from \$22.1 million to \$34.9 million.

The increase is mainly due to the gain on the legal settlement received during the fourth quarter of 2005. Included as a separate component of shareholders' equity is a cumulative translation loss of \$5.5 million. This loss results from the increased strength of the Canadian dollar against the US dollar (since the date the Company's Michigan-based operations were acquired) when translating the Company's Michigan-based 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)

	December 31, 2005		December 31, 2004	
	# Outstanding	Dollars	# Outstanding	Dollars
Common shares	22,049,233	\$ 42,566	12,049,233	\$ 19,010
Class X shares	-	-	1,504,365	21,376
		\$ 42,566		\$ 40,386

Note: Class X shares were issued by a subsidiary and were exchanged for 7,000,000 common shares of the Company in December, 2005.

At year-end, 580,000 options to purchase 580,000 common shares of the Company were outstanding.

As at March 15, 2006, there has been no change in the number of outstanding shares or options to purchase common shares.

Related Party Transactions

During the year, the Company paid rent to two companies controlled by a former member of the Board of Directors, until such time as the Director resigned, totaling \$1,937 (US\$1,599). These transactions were conducted in the normal course of business and were accounted for at the exchange amount.

2006 OUTLOOK

2006 is expected to be a pivotal year for Automodular.

In Michigan in 2005, the Company completed the shut-down or rationalization of 2 facilities relating to the transition of its Lansing business to a competitor. This transition will continue until the end of the second quarter of 2006.

Subsequent to year-end, the Company was informed by General Motors Corporation that it was unsuccessful in its bid to expand its Pontiac, Michigan operations, and in accordance with the terms of the bid, will cease to operate in Pontiac in mid-2006. The Pontiac operations reported revenues totaling approximately \$15 million (US\$12 million) during 2005 and employed 180 people.

Our Ohio operations are running effectively and we have a strong management team in place. We are currently bidding on additional contracts in order to better leverage these resources.

In Ontario in 2005, the Company's contract for services provided to the Oshawa truck plant was extended. In 2006, efforts are being focused on the launch of the new truck program which is scheduled for the fourth quarter of 2006. During 2005, the Company was awarded new and extended contracts for services provided to Oshawa car plant #1. The new program launch occurred during the second and third quarters of the year with full production levels reached in the fourth quarter. There are no launches for car operations in 2006. Operations will be impacted by the previously announced removal of the third shift of production for Oshawa car plant #1, expected in late 2006.

Automodular's Oakville operations are on target to commence full commercial production in the fourth quarter of 2006. From a size perspective, the operations will be of the same scope as the Company's existing Oshawa operations. The contracts are for the sub-assembly and sequencing of complex modules for Ford's new cross-over utility vehicles: the Ford Edge and Lincoln MKX. Automodular took occupancy of its Oakville facility in the first quarter of 2006.

The launch team members all have extensive experience with OEMs and/or Tier 1 suppliers and workforce hiring is underway. These contracts require the Company to expend approximately \$22 million in capital and pre-production costs. These costs are built into the variable piece price and will be financed by the renewal of existing credit facilities and the new equipment financing arrangements described earlier coupled with existing cash from operations.

The Company does not expect to see earnings growth until 2007. At that time, full-scale production should be achieved in the Company's new facilities and the costs of closing excess facilities will have been absorbed.

ACCOUNTING POLICY

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 Policy

The Company believes that the following accounting policy is critical because it involves significant judgment and the use of estimates.

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.

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

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that relevant and accurate information needed to comply with the Company's continuous disclosure obligations is accumulated and summarized to allow timely decisions regarding disclosure and to ensure that the risk of material error or fraud is minimal. Management has concluded that the Company's disclosure controls and procedures, as at the end of the period covered by the annual filings, are effective in ensuring that material information is accumulated and disclosed accurately. Management believes that "cost-effective" disclosure controls, disclosure procedures and internal control systems can only provide reasonable assurance, and not absolute assurance, that the objectives of the controls and procedures are met.

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 estimates, 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, General Motors of Canada Limited and Ford Motor Company of Canada, Limited; new program launch risks and other changes in the business environment in which we operate. Except as required by continuous disclosure obligations, 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 on the SEDAR website at www.sedar.com.