AUTOMODULAR CORPORATION

2005 ANNUAL REPORT

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Financial Highlights

	Year ended December 31, 2005 (000s)	Year ended December 31, 2004 (000s)
Sales	$ 79,210	$ 93,537
Earnings (loss) before income taxes	11,856	(10,256)
Net earnings (loss)	11,042	(10,445)
Net earnings (loss) per share	0.54	(0.55)
Total assets	51,328	36,039
Shareholders' equity	34,864	22,145

To the Shareholders

2005 was a key year in the development of Automodular Corporation ("Automodular" or "the Company"). The Company won major contracts with Ford Motor Company of Canada, Limited ("Ford") to supply sequenced power train, suspension and instrument panel sub-assemblies for the new Ford Edge and Lincoln MKX programs announced for the Ford assembly plant in Oakville, Ontario. Construction of the new 265,000 square foot facility was completed in February, 2006 and the plant is being equipped for an October, 2006 start of production.

During the year, Automodular settled a long-standing legal dispute for the payment to Automodular of $11 million. The Company also realized $2.5 million from the sale of a redundant plant in Whitby, Ontario. These funds, together with a $6 million term loan from Roynat Capital and the Company's banking facilities provide the $22 million funding for the Oakville program.

Operating results for the year improved steadily quarter by quarter, after significant down time in customer assembly operations impacted the first quarter negatively. For the year as a whole, sales in 2005 were $79 million, down from $94 million in 2004. A further modest decline is expected in 2006 until the Ford Oakville program begins.

Net earnings for 2005 totaled $11.0 million, a reversal of the $10.4 million loss incurred in 2004. Neither the 2004 loss nor the 2005 earnings should be considered representative, since both were affected by a number of one-time events.

The industry continues to be competitive and continues to undergo major changes as both General Motors Corporation and Ford restructure. Automodular is well-positioned to assist these major customers in meeting their goals for lower cost and higher quality vehicles and expects to benefit from increased outsourcing of sub-assembly modules.

On behalf of the directors

(Signed) Michael F. Blair
Chief Executive Officer

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	$ (1,262)	$ (3,938)

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 shutdown 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.

Management's Responsibility For Financial Information

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

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

The consolidated financial statements have been audited by the independent external auditors appointed by the shareholders, Smith, Nixon & Co. LLP. In that capacity, they have examined and reported on the consolidated financial statements for the years ended December 31, 2005 and 2004. 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.

(Signed) Michael F. Blair
Chief Executive Officer

(Signed) Christopher S. Nutt
Chief Financial Officer

Toronto, Ontario
March 8, 2006

Auditors' Report

TO THE SHAREHOLDERS OF AUTOMODULAR CORPORATION

We have audited the consolidated balance sheets of Automodular Corporation as at December 31, 2005 and 2004 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, 2005 and 2004 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

Chartered Accountants

Toronto, Ontario
March 8, 2006

Consolidated Balance Sheets

as at December 31, 2005 and 2004
(all numbers in thousands)

		2005		2004
ASSETS				
Current assets:				
Cash and cash equivalents	$	10,257	$	995
Receivables *(Note 4)*		16,213		10,549
Inventory		117		185
Income taxes receivable		-		1,534
Prepaid expenses		4,440		4,545
		31,027		17,808
Future income taxes *(Note 13)*		-		18
Property, plant and equipment *(Note 5)*		7,840		6,982
Goodwill		9,414		9,414
Other assets *(Note 6)*		3,047		1,817
	$	51,328	$	36,039
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$	9,271	$	5,380
Income taxes payable		206		-
Advanced tooling payment *(Note 7)*		2,026		-
Current portion of long-term liabilities *(Note 9)*		2,450		8,392
		13,953		13,772
Future income taxes *(Note 13)*		9		-
Long-term liabilities *(Note 9)*		2,502		122
		16,464		13,894
Contingencies and Commitments *(Note 17)*		-		-
SHAREHOLDERS' EQUITY				
Capital stock *(Note 10)*		42,566		40,386
Contributed surplus		82		58
Cumulative translation adjustment		(5,533)		(5,006)
Deficit		(2,251)		(13,293)
		34,864		22,145
	$	51,328	$	36,039

Signed on behalf of the Board

"Michael F. Blair" — Director

"Henry J. Knowles" — Director

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

Consolidated Statements of Deficit

for the years ended December 31, 2005 and 2004
(all numbers in thousands)

		2005		2004
BALANCE - BEGINNING OF YEAR	$	(13,293)	$	(2,848)
Net earnings (loss) for the year		11,042		(10,445)
BALANCE - END OF YEAR	$	(2,251)	$	(13,293)

Consolidated Statements of Earnings

for the years ended December 31, 2005 and 2004
(all numbers in thousands except share and per share data)

		2005		2004
SALES	$	79,210	$	93,537
COST OF SALES AND OTHER EXPENSES		74,196		86,970
EXIT COSTS *(Note 12)*		2,303		1,004
EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING:		2,711		5,563
Amortization		2,854		4,398
Interest expense		408		688
Stock-based compensation		24		25
Foreign exchange		(278)		(218)
Other income *(Note 11)*		(12,153)		(422)
		(9,145)		4,471
		11,856		1,092
WRITE-OFF OF GOODWILL AND INTANGIBLE ASSETS		-		11,348
EARNINGS (LOSS) BEFORE INCOME TAXES		11,856		(10,256)
INCOME TAXES		814		189
NET EARNINGS (LOSS) FOR THE YEAR	$	11,042	$	(10,445)
Earnings (loss) per share -				
Basic	$	0.54	$	(0.55)
Diluted	$	0.54	$	(0.55)
Weighted average common shares outstanding		20,610,877		12,049,233
Exchangeable Class X shares *(Note 10(d))*		-		7,000,000
Basic weighted average common shares outstanding		20,610,877		19,049,233
Basic weighted average common shares outstanding		20,610,877		19,049,233
Incremental shares from stock options and warrants		-		8,970
Diluted weighted average common shares outstanding		20,610,877		19,058,203

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

Consolidated Statements of Cash Flows

for the years ended December 31, 2005 and 2004
(all numbers in thousands)

		2005		2004
CASH* PROVIDED BY (USED IN)				
OPERATIONS				
Net earnings (loss) for the year	$	11,042	$	(10,445)
Items not involving current cash flows *(Note 14)*		1,640		15,519
Net change in non-cash working capital *(Note 14)*		1,836		(2,083)
		14,518		2,991
INVESTING ACTIVITIES				
Purchase of property, plant and equipment and other assets		(6,286)		(1,808)
Proceeds on disposal of property, plant and equipment		2,522		-
Funding of pension plan		-		(125)
Proceeds on disposal of long-term investments		-		611
Business acquisition *(Note 3)*		-		(375)
		(3,764)		(1,697)
FINANCING ACTIVITIES				
Issue of common shares		2,180		-
Repayment of long-term liabilities		(3,442)		(3,938)
		(1,262)		(3,938)
EFFECT OF EXCHANGE RATE CHANGES ON CASH*		(230)		(290)
CHANGE IN CASH*		9,262		(2,934)
CASH* - beginning of year		995		3,929
CASH* - end of year	$	10,257	$	995

*Cash includes cash and cash equivalents

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

as at December 31, 2005 and 2004
(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.

Cash and cash equivalents

Cash and cash equivalents consists of highly liquid instruments, such as deposits with major commercial banks, the maturities of which are three months or less from the date of purchase.

Inventory

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

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 as follows:

Buildings and leasehold improvements	10% to 30%
Manufacturing equipment	30% to 40%
Automotive equipment	25% to 40%
Other equipment and furniture	20% to 30%

Open capital projects are assets not currently available for use and will be reclassified to their appropriate classification upon project completion.

Long-lived assets

Property, plant and equipment and other assets with limited life are reviewed for impairment whenever events or changes in circumstances suggest that the carrying amount of an asset may not be recoverable. An impairment is recognized when the carrying amount of an asset is greater than its fair value, including any proceeds on disposal. The impairment amount is measured as the amount by which the carrying amount of the asset exceeds its fair value.

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

The Company capitalizes costs incurred in establishing new production lines and facilities which require substantial time to reach commercial production capability. Amortization of these costs will be recorded over the life of the original contract, commencing on the date commercial production is achieved. After commencement of commercial production, ongoing contract costs will be expensed in the period incurred.

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 identified upon 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.

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 2005. Based on the results obtained, the Company determined no write-down was required.

The 2004 impairment test resulted in the Company recording a goodwill write-off of $9,453 (US$7,864), and an intangible write-off of $1,895 (US$1,577), which related to the Company's Michigan-based operations.

Pension plans

The Company sponsors a defined benefit pension plan for a member of its executive. The cost of the defined benefit plan is actuarially determined and includes management's best estimate of expected plan investment performance, salary escalation and expected retirement age. Adjustments arising from plan amendments or from actuarially determined gains or losses are amortized on a straight-line basis over the remaining service life of the executive.

The Company also sponsors defined contribution pension plans. Company contributions to this plan are expensed as incurred.

Hedging relationships
As per CICA Handbook Section 3865, derivative instruments that qualify as hedges are not recorded in the Company's financial statements. Subsequent changes in the derivatives' fair values are disclosed in the notes to the financial statements as unrealized gains or losses. Derivative instruments that do not qualify as hedges, or are not designated as hedges by management, are recorded in the balance sheet at their fair value and are remeasured on a quarterly basis. The unrealized gains or losses are recorded through earnings as non-hedge derivative gains or losses.

The Company's derivative instruments consist of an interest rate swap. Management has designated this swap as a hedge. Accordingly, unrealized gains and losses are not recorded through earnings. Additional information on the swap is recorded in *Note 17(b)*.

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. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT
The carrying value of cash and cash equivalents, receivables, 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.

Financial instruments potentially exposing the Company to a concentration of credit risk principally consist of cash and cash equivalents and accounts receivable. The Company, in the normal course of business, is exposed to credit risk from its customers all of which are in the automotive industry. These accounts receivable are subject to normal industry credit risks. See *Note 4*.

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company does not actively hedge its exposure to interest rate risk, other than as disclosed in *Note 17(b)*.

3. 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. Tec-Mar is a supplier of sequencing and sub-assembly services to automotive assembly plants. The transaction closed January 31, 2003. Pursuant to the purchase agreement, the Company was required to pay 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. During 2005, the Company signed an agreement with the former shareholders of Tec-Mar which waived the former shareholders' rights to any further purchase price adjustments from 2004 onwards.

4. ECONOMIC DEPENDENCE
The Company has long-term contracts with General Motors Corporation, General Motors of Canada Limited and Ford Motor Company of Canada, Limited (the original equipment manufacturers or "OEMs") and their various suppliers. All of the Company's sales are dependent on the OEMs, either directly or through their various suppliers. The Company's sales are entirely dependent on the production volumes of the OEMs for which it provides services.

As at December 31, 2005, 68% (2004 - 67%) of trade receivables were due from General Motors Corporation, General Motors of Canada Limited and Ford Motor Company of Canada, Limited.

as at December 31, 2005 and 2004
(all numbers in thousands except share and per share amounts)

5. PROPERTY, PLANT AND EQUIPMENT

	2005			2004		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land, buildings and leasehold improvements	$ 3,778	$ 2,640	$ 1,138	$ 4,818	$ 2,582	$ 2,236
Manufacturing equipment	8,404	6,451	1,953	8,208	6,014	2,194
Automotive equipment	2,485	1,907	578	2,987	2,216	771
Other equipment and furniture	3,587	2,697	890	4,155	2,866	1,289
Open capital projects	3,281	-	3,281	492	-	492
	$ 21,535	$ 13,695	$ 7,840	$ 20,660	$ 13,678	$ 6,982

Included in automotive equipment are leased assets with a cost of $566, accumulated amortization of $419 and a net book value of $147.

6. OTHER ASSETS

	2005			2004		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Intangible assets - production contracts	$ -	$ -	$ -	$ 3,638	$ 3,638	$ -
Deferred contract costs	2,144	225	1,919	544	-	544
Pension fund asset (*Note 15*)	1,128	-	1,128	1,273	-	1,273
	$ 3,272	$ 225	$ 3,047	$ 5,455	$ 3,638	$ 1,817

7. ADVANCED TOOLING PAYMENT
A customer advanced funds to the Company to purchase capital assets on their behalf, relating to a new business award. The liability will be reduced as the Company purchases the required assets.

8. CREDIT FACILITIES
The Company has available to it a revolving credit facility with a limit of $5,000. At December 31, 2005, the Company had drawn $293 (2004 - $1,788). Both the revolving credit facility and the term credit facility described in *Note 9* 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 2.5%. The effective interest rate at December 31, 2005 was 7.5% (2004 - 5%).

9. LONG-TERM LIABILITIES

	2005	2004
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 2005 was approximately 5.2% (2004 - 4.9%). The balance is denominated in US dollars (US$4,151; 2004 US$6,750) and matures December 31, 2007. Payments of US$500 are due quarterly, in arrears.	$ 4,828	$ 8,153
Capital leases with interest rates ranging from 7.5% to 8.5%, repayable in monthly instalments of $17 (US$14), with various maturities in 2006, secured by equipment with an original capital cost of $566 (US$487).	124	361
	4,952	8,514
Deduct: Current portion	2,450	8,392
	$ 2,502	$ 122

Under the terms of the financing arrangements with its bankers, as described in *Notes 8 and 9*, the Company is required to meet certain financial and other covenants. The Company is in compliance with its financial covenants at December 31, 2005.

Interest expense on long-term liabilities for the year is $306 (2004 - $526).

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

2006	$ 2,450
2007	2,502
	$ 4,952

10. CAPITAL STOCK
(a) Authorized
Unlimited number of common shares.

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

(b) Issued - Common Shares

	Number of Shares		Amount
Balance - December 31, 2003 and 2004	12,049,233	$	19,010
Rights offering *(Note 10(c))*	3,000,000		2,180
Share exchange exercised *(Note 10(d))*	7,000,000		21,376
Balance - December 31, 2005	22,049,233	$	42,566

Class X shares issued by a subsidiary *(Note 10(d))*

Balance - December 31, 2003 and 2004	1,504,365	$	21,376
Share exchange exercised *(Note 10(d))*	(1,504,365)		(21,376)
Balance - December 31, 2005	-	$	-

(c) Rights offering

During 2005, the Company completed a rights offering and issued 3,000,000 common shares for gross proceeds of $2,250. Under the terms of the offering, common shareholders received one right for each common share held. Class X shareholders received one right for each common share that Class X shares were convertible into. For every six rights, an eligible shareholder was entitled to purchase one common share at the subscription price of $0.75 per common share. Expenses incurred in relation to the offering totalled $70, resulting in net proceeds of $2,180.

(d) Class X shares

During 2001, a subsidiary of the Company issued 1,504,365 Class X shares, which were exchangeable into 7,000,000 common shares of the Company. The shares participated in the earnings and dividends of the Company as though they were common shares of the Company and accordingly were included in the calculation of weighted average common shares outstanding. During December 2005, the shares were exchanged for the full 7,000,000 common shares.

(e) 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.

No options were granted during 2004 or 2005. During the year, 100,000 options were cancelled.

As at December 31, 2005, 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	242,000	$3.85	October 25, 2006	242,000
October 24, 2002	168,000	$4.00	October 24, 2007	100,800
February 18, 2003	70,000	$4.15	February 18, 2008	28,000
July 24, 2003	100,000	$4.26	July 24, 2008	40,000
	580,000			

11. OTHER INCOME

		2005		2004
Interest, dividends and other	$	129	$	43
Gain on disposal of long-term investments		-		379
Gain on disposal of property, plant and equipment		1,133		-
Gain on legal settlement (net of expenses)		10,891		-
	$	12,153	$	422

Gain on legal settlement

The Company settled outstanding litigation with West Street Capital (formerly Consolidated Enfield Corporation). The litigation was commenced in 1995 and concerned alleged oppression in the management of the business of Enfield. In the litigation, the Company was seeking damages from the defendants, including Hees International Bancorp Inc. (a predecessor of Brascan Corporation). Under the settlement, the Company received a payment from Brascan of $11 million. There has been no admission of liability on the part of any party. The purpose of the settlement is to eliminate the expense and opportunity cost for all parties associated with continued litigation.

12. EXIT COSTS

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 the related contracts held with Tier 1 customers occurred during the current year. The transition of this business 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. A charge for exit costs totaling US$1.9 million (CDN $2.3 million) has been recorded in the current year. These exit costs include US$1.4 million

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

(CDN $1.7 million) to settle remaining lease obligations on a redundant facility. The remaining US$0.5 million (CDN $0.6 million) relates to severance and other closeout costs.

During 2004, the Company was informed that its major customer would be terminating or not renewing certain contracts related to its Delaware, Michigan and Oshawa operations. Exit costs relating to severance, excess facility charges and other closeout costs were $1,004 for the year ended December 31, 2004.

13. INCOME TAXES

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

	2005	2004
Property, plant and equipment and other assets	$ (671)	$ (102)
Reserves and other temporary differences	662	120
	$ (9)	$ 18

(b) The major factors that cause variations from the Company's combined federal and provincial statutory Canadian income tax rates of 36.12% (2004 - 36.12%) were the following:

	2005	2004
Earnings (loss) before income taxes	$ 11,856	$ (10,256)
Expected income tax expense at statutory rates	$ 4,282	$ (3,704)
Increase (decrease) resulting from:		
Non-deductible/non-taxable items	12	4,678
Manufacturing and processing deduction	(19)	(37)
Non-taxable portion of capital gains	(2,059)	(238)
Capital losses previously unrecognized	(1,227)	(238)
Non-capital losses previously unrecognized	(125)	(311)
Other	(50)	39
	$ 814	$ 189

(c) Provision

The details of the income tax provision are as follows:

	2005	2004
Current provision	$ (744)	$ (819)
Future provision	1,558	1,008
	$ 814	$ 189

14. CASH FLOW INFORMATION

(a) Items not involving current cash flows

	2005	2004
Amortization	$ 2,854	$ 4,398
Loss (gain) on disposal of property, plant and equipment	(1,133)	-
Future income taxes	27	192
Gain on disposal of long-term investments	-	(379)
Write-off of goodwill and intangible assets	-	11,348
Stock-based compensation	24	25
Foreign exchange	(278)	(218)
Pension expense	146	153
	$ 1,640	$ 15,519

(b) Net change in non-cash working capital

	2005	2004
Receivables	$ (5,856)	$ 743
Inventory	66	72
Prepaid expenses	101	(1,778)
Accounts payable and accrued liabilities	3,759	(644)
Advanced tooling payment	2,026	-
Income taxes	1,740	(476)
	$ 1,836	$ (2,083)

(c) Supplemental information

	2005	2004
Interest paid	$ 394	$ 688
Income taxes paid (recovered)	$ (1,051)	$ 797

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

15. 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 total expense for the defined contribution pension plans was $710 (2004 - $700). The Company also has a defined benefit pension plan for a senior executive of the Company. Information about the defined benefit plan is as follows:

	2005	2004
Total defined benefit pension expense is comprised as follows:		
Defined benefit plan		
Service costs (benefits earned during the year)	$ 83	$ 79
Interest costs on accrued benefit obligation	64	69
Expected return on plan assets	(73)	(67)
Amortization of transitional obligations	72	72
Total defined benefit pension expense	$ 146	$ 153
Pension fund asset is comprised as follows:		
Market value of plan assets at beginning of year	$ 2,089	$ 1,847
Employer contributions	-	125
Actual return on plan assets	128	117
Market value of plan assets at end of year	$ 2,217	$ 2,089
Accrued benefit obligations is comprised as follows:		
Obligation at beginning of year	$ 1,216	$ 1,074
Service costs (benefits earned during the year)	83	79
Interest costs on accrued benefit obligation	64	69
Actuarial loss on accrued benefit obligation	238	(6)
Accrued benefit obligation at the end of the year	$ 1,601	$ 1,216
Funded status at end of year:	$ 616	$ 873
Items not recognized in earnings:		
Unrealized transitional obligation	358	429
Unrecognized actuarial gains (losses)	154	(29)
Pension fund asset	$ 1,128	$ 1,273

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

	2005	2004
Discount rate	4.75%	5.75%
Expected long-term rate of return on plan assets	3.50%	3.50%
Rate of compensation increase	4.00%	4.00%
Retirement age	65 years	65 years
Expected remaining service life	5 years	6 years

Based on the result of an actuarial valuation, completed as of December 31, 2005, funding contributions are expected to be $30 for the year 2006 and $139 for the year 2007. Payments will commence upon retirement of the key executive. The next actuarial valuation of the plan for funding purposes will be required no later than December 31, 2007 or in the event of a plan amendment.

During 2004, the Company committed to providing a second senior executive with certain post-retirement benefits. The total estimated cost of these benefits was expensed over the remaining service life of the executive. The executive retired during the second quarter of 2005 and will receive monthly payments of $5. This obligation is 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 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, 2005 43% (2004 - 44%) of the plan assets at fair value were deposited in the tax account and 57% (2004 - 56%) were invested. The balance invested consists of the following allocations:

	Target	2005 Actual	2004 Actual
Fixed income	40%	39%	31%
Canadian equity	50%	45%	51%
US equity	5%	8%	9%
International equity	5%	8%	9%

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

as at December 31, 2005 and 2004
(all numbers in thousands except share and per share amounts)

16. RELATED PARTY TRANSACTIONS

During the year, the Company paid rent to two companies controlled by a former member of the Board of Directors totalling $1,937 (US$1,599) (2004 - $2,773 (US$2,132)). These transactions were conducted in the normal course of business and were accounted for at the exchange amount.

17. CONTINGENCIES AND COMMITMENTS

(a) Operating leases

All 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. Commitments are denominated in both Canadian and US dollars. US dollar denominated commitments disclosed below have been translated into the Canadian dollar equivalent.

	US Denominated	CDN Denominated	Total
2006	$ 4,331	$ 3,377	$ 7,708
2007	3,218	3,699	6,917
2008	3,254	3,576	6,830
2009	3,254	3,443	6,697
2010	-	3,527	3,527
Thereafter	-	15,557	15,557
	$ 14,057	$ 33,179	$ 47,236

(b) Capital expenditures

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

(c) Interest rate swap agreement

The Company is committed to an interest rate swap agreement, which expires December, 2007, on its US dollar denominated debt of US$4,151 (see *Note 9*). 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%. As at December 31, 2005, the unrecognized loss on this agreement, which was calculated using year-end market rates, was $33. The Company has no plans to unwind this position prior to maturity.

(d) Letter of credit

The Company has issued a letter of credit in the amount of $293 (US$252). As at December 31, 2005, no amount has been drawn upon the letter of credit and no amount has been accrued in the consolidated balance sheets relating to this letter of credit.

(e) General

In the ordinary course of business activities, the Company is a party to certain litigation and other claims. Management believes that the resolution of such litigation and claims will not have a material effect on the consolidated position of the Company.

18. SEGMENTED INFORMATION

Geographic Information

	2005		2004	
	Sales	PP&E and Goodwill	Sales	PP&E and Goodwill
Canada	$ 35,182	$ 15,800	$ 38,033	$ 13,842
United States	44,028	1,454	55,504	2,554
	$ 79,210	$ 17,254	$ 93,537	$ 16,396

All sales are made to external customers for automotive sub-assembly and sequencing services performed.

19. COMPARATIVE FIGURES

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

20. SUBSEQUENT EVENTS

(a) Subsequent to year-end, the Company signed a $6 million equipment financing agreement for assets to be purchased in relation to the Ford Motor Company of Canada, Limited business award. The facility is to be repaid over a six year term, at an interest rate of approximately 8%.

(b) The Company was informed by General Motors Corporation that it was unsuccessful in its bid for an expansion of 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.

Investor Information

COMPARATIVE DATA

	Dec 31 2005	Dec. 31 2004	Dec. 31 2003	Dec. 31 2002	Dec. 31 2001
Operations ($000s)					
Sales	79,210	93,537	107,909	55,919	52,934
Net earnings (loss)	11,042	(10,445)	3,745	4,033	3,979
Cash flow from operations	14,518	2,991	6,377	9,778	4,301
Financial ($000s)					
Total assets	51,328	36,039	53,804	42,806	46,660
Long-term debt	2,502	122	9,216	0	1,991
Shareholders' equity	34,864	22,145	34,590	36,994	37,897
Return on average shareholders' equity (%)	38.7	(36.8)	10.5	10.8	14.2
Per share ($)					
Net earnings (loss)	0.54	(0.55)	0.20	0.21	0.27
Weighted average number of shares outstanding (000s)	20,611	19,058	18,939	18,829	14,883

QUARTERLY DATA

	2005				2004			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Sales ($000s)	19,660	20,680	19,564	19,306	18,622	19,478	26,789	28,648
Amortization	929	772	623	530	831	1,115	1,288	1,164
Net earnings (loss)	9,303	644	572	523	(12,092)	(126)	716	1,057

COMMON SHARE PRICES

Calendar year	The Toronto Stock Exchange		
	High $	**Low $**	**Volume (000s)**
2005			
Fourth Quarter	1.35	0.63	896
Third Quarter	1.30	0.80	302
Second Quarter	1.15	0.70	329
First Quarter	1.70	1.02	134
2004			
Fourth Quarter	2.35	1.30	346
Third Quarter	3.25	2.10	63
Second Quarter	3.26	2.60	53
First Quarter	3.76	2.25	207

Corporate Information

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N-Viro Systems Canada Inc.

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Diane Erlingher
Corporate Secretary

James Gazo
Vice-President Canadian Operations

Christopher S. Nutt
Vice-President Finance
and Chief Financial Officer

Rae E. Wallin
Chairman of the Board

Annual Meeting

THE ANNUAL MEETING OF SHAREHOLDERS WILL BE HELD IN THE RIDOUT ROOM
OF THE TORONTO BOARD OF TRADE DOWNTOWN CENTRE
1 FIRST CANADIAN PLACE, TORONTO, ONTARIO
ON WEDNESDAY, MAY 10, 2006 AT 11:00A.M.

ALL SHAREHOLDERS ARE ENCOURAGED TO ATTEND.

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