

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

The following MD&A of our consolidated operating results and financial position is for the three and six month periods ended June 30, 2006 and 2005 and should be read in conjunction with the unaudited interim consolidated financial statements for the three and six month periods ended June 30, 2006 and 2005 and the notes thereto as well as the 2005 annual report and audited financial statements of Automodular Corporation ("Automodular" or "the Company"). The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars.

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. At present, we employ in excess of 700 people in 6 operating facilities servicing 5 OEM plants.

OVERVIEW

Second quarter sales decreased from \$19.6 million in 2005 to \$17.1 million in 2006 and net earnings decreased from \$1.4 million or \$0.07 per share in 2005 to \$0.6 million or \$0.03 per share in 2006 (all references to earnings per share refer to fully diluted earnings per share). The 2005 comparative figures have been restated to reallocate the gain on the sale of the Company's Whitby facility from Q1 2005 to Q2 2005. This restatement increased previously reported Q2 2005 net earnings by \$0.9 million or \$0.04 per share and decreased previously reported Q1 2005 by the same amount.

Accomplishments during the second quarter of 2006 included the following:

- Preparations continue in the Company's Oakville facility with commercial production scheduled in the fourth quarter of 2006. Substantially all equipment is in place and pre-production builds and training are underway. Approximately 200 of the projected 350 hourly and salaried staff have been hired.
- Automodular reached agreement with the National Automobile, Aerospace, Transportation and General Workers of Canada ("CAW") on a 3-year initial contract in respect of the Oakville facility.

Challenges included the following:

- Following the termination of its contract, the Company closed its Pontiac, Michigan facility on June 30, 2006. The second quarter results include a charge of approximately US\$0.7 million with respect to severance, benefit and other exit costs relating to the closure of this facility.
- The Company was advised by General Motors that operations at its Ohio facility would be reduced from a three-shift to a two-shift operation during the third quarter of 2006. The impact on future earnings is not expected to be material.

RESULTS OF OPERATIONS

The Company's comparative consolidated operating results for the three and six months ended June 30, 2006 and 2005 are as follows:

SALES

Automodular's sales decreased from \$19.6 million during the second quarter of 2005 to \$17.1 million during the second quarter of 2006. Year to date sales of \$35.0 million are \$3.9 million lower than the same period in 2005.

Both the quarterly and year to date decrease in sales are due to the 2005 transition of a substantial portion of the Company's Lansing, Michigan business to a competitor offset by higher production volumes and new and renewal contracts in Canadian operations.

EARNINGS BEFORE INTEREST, TAXES, AMORTIZATION AND OTHER NON-CASH ITEMS

Automodular uses an EBITDA metric as a measure of cash operating earnings. It is a metric that is widely used in evaluating the operating performance of companies in the automotive industry and is defined 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 \$0.4 million from \$1.4 million in the second quarter of 2005 to \$1.0 million during the second quarter of 2006. Year to date EBITDA of \$2.3 million is \$0.7 million higher than the same period in 2005.

The decrease in EBITDA during the quarter of \$0.4 million is a result of exit costs of \$0.8 million relating to the closure of the Company's Pontiac operations combined with the 2005 transition of business referred to above offset by improved production volumes and improved pricing on new and renewal contracts signed in 2005 in the Company's Canadian operations.

On a year to date basis, EBITDA has increased because higher production volumes in Q1 2006 compared to Q1 2005 more than offset the Q2 shortfall noted above.

INTEREST

Interest expense is \$0.2 million lower in the second quarter of 2006 than in the second quarter of 2005 as a result of the lower draw on the Company's available credit facilities following the gain on settlement of a lawsuit in the fourth quarter of 2005 and the interest earned on the investment of the settlement proceeds.

FOREIGN EXCHANGE

The Company's foreign exchange gains relate primarily to the repayment of the Company's US dollar term credit facility.

OTHER INCOME

Substantially all of the other income in the second quarter related to gains realized on the sale of redundant equipment and transportation equipment in the Company's Michigan-based operations. The large gain in 2005 related to the sale of the Company's Whitby facility.

INCOME TAXES

The effective tax rate is higher in the current period because a portion of the gain on the sale of the Company's Whitby facility in 2005 was non-taxable due to the availability of previously unrecognized capital losses.

HISTORICAL QUARTERLY DATA - ROLLING EIGHT QUARTERS (all numbers in thousands except per share amounts)

	2006		2005				2004	
	Q2	Q1	Q4	Q3	Q2 restated	Q1 restated	Q4	Q3
Sales	\$17,133	\$17,890	\$19,660	\$20,680	\$19,564	\$19,306	\$18,622	\$ 19,478
Net earnings (loss)	\$ 591	\$ 577	\$ 9,303	\$ 644	\$ 1,436	\$ (340)	\$(12,092)	\$(126)
Per share	\$ 0.03	\$ 0.03	\$0.45	\$ 0.03	\$ 0.07	\$(0.02)	\$ (0.64)	\$ (0.01)

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Operating activities

Cash provided by operations of \$3.4 million in the second quarter of 2006 compares to cash provided by operations of \$1.5 million in 2005 due to the realization of working capital on the closure of certain of the Company's Michigan based operations.

Investing activities

Net cash expenditures of \$4.4 million during the second quarter compares to spending of \$1.6 million in 2005. The majority of the purchases relate to capital and pre-production costs incurred for the new Oakville program. Proceeds of \$1.0 million were realized in the current quarter on the disposal of redundant assets in the Company's Michigan based operations.

Financing activities

Repayment of long-term liabilities in the second quarter includes US\$0.5 million relating to the term credit facility with the balance relating to capital leases. The 2005 figures include proceeds received from a rights issue.

UNUSED AND AVAILABLE FINANCING RESOURCES

Automodular has net cash and cash equivalents on hand at June 30, 2006 of \$0.5 million compared to cash on hand at December 31, 2005 of \$10.3 million. The Company has available to it a \$5 million operating line of credit. Automodular signed a \$6 million equipment financing agreement to facilitate the purchase of capital assets required for the new Oakville program. Subsequent to quarter-end, the entire \$6 million was advanced to the Company. Automodular expects that the equipment financing combined with operating cash flows will be sufficient to fund the startup of the Oakville program.

SHAREHOLDERS' EQUITY

Shareholders' equity increased from \$34.9 million at December 31, 2005 to \$35.5 million at June 30, 2006. There are 22,049,233 shares issued and outstanding as at the date of this filing.

OUTLOOK

During the balance of 2006, the Company's focus will be on successfully managing the start-up of its new Oakville operations, with commercial production scheduled to commence in October, 2006. The contracts are to sub-assemble and sequence engines, suspension and instrument panel modules for the new Ford Edge and Lincoln MKX vehicles being produced in Ford Motor Company of Canada Limited's Oakville Assembly Plant.

The Oshawa area operations are focused on the ramp up for the new truck program for General Motors of Canada Limited scheduled for the fourth quarter.

In Michigan, the Company's remaining Lansing contracts have been extended one year to July, 2007. In Ohio, our operations are transitioning from a three-shift to a two-shift operation during the current quarter.

Automodular continues to be impacted by industry and program risk and may experience downtime or volume adjustments in its operations as OEMs seek to balance inventory levels. The Company anticipates profitable operations for the balance of 2006 and improved results in 2007 as its new Oakville operation enters its first full year of production.

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 predictions, 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

Additional information regarding the Company, including the Annual Information Form, can be found on the SEDAR website at www.sedar.com or the Company's website at www.automodular.com

August 14, 2006