

The following MD&A of our consolidated operating results and financial position is for the three-month periods ended March 31, 2006 and 2005 and should be read in conjunction with the unaudited interim consolidated financial statements for the three-month periods ended March 31, 2006 and 2005 and the notes thereto as well as the Company's 2005 annual report and audited financial statements.

Automodular Corporation ("Automodular" or "the Company") 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 800 people in 7 operating facilities servicing 7 OEM plants.

## OVERVIEW

First quarter sales in 2006 decreased from \$19.3 million in 2005 to \$17.9 million in 2006 whereas net earnings increased from a loss of \$0.3 million or \$0.02 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 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 reduced previously reported Q1 2005 net earnings by \$0.9 million or \$0.05 per share and will increase previously reported Q2 2005 by the same amount.

Accomplishments during the first quarter of 2006 included the following:

- The Company took occupancy of its new Oakville facility in February. During the quarter, the assembly lines were installed. Automodular has spent approximately \$17 million to date for the purchase of capital assets and pre-production costs on this program. Commercial production is scheduled to start in the fourth quarter of this year.
- In order to finance capital expenditures in its new Oakville facility, the Company signed a \$6 million equipment financing agreement. The facility is to be repaid over a six-year term at an interest rate of approximately 8%. Automodular expects to fully draw the facility in the second quarter of 2006 following the settlement of final legal documentation.

Challenges included the following:

- 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. Automodular is currently negotiating a transition agreement with the successful supplier which will address facility, labour and capital asset issues. The cost to the Company of the shutdown of the Pontiac operations cannot be quantified at this time. Automodular will be in a better position to determine these costs during the second quarter.

## SALES

Automodular's sales decreased from \$19.3 million during the first quarter of 2005 to \$17.9 million during the first quarter of 2006.

Canadian operations – Sales increased to \$11.0 million from \$7.5 million as a result of new contracts and higher production volumes year over year. The Company experienced a substantial

loss of production in the same period in 2005 as a result of downtime in the car and truck assembly plants to which the Company provides services.

US operations – Michigan-based revenues during the first quarter of 2006 were US\$4.7 million (CDN \$5.5 million) which reflected a decrease of US\$3.6 million compared to the first quarter of 2005 as a result of the continuing transition of the Company’s business to a competitor. Ohio-based revenues were consistent during the first quarters of 2006 and 2005.

## **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 increased \$1.2 million from \$0.1 million in the first quarter of 2005 to \$1.3 million during the first quarter of 2006.

Canadian operations – EBITDA was \$1.3 million higher than 2005 as a result of increased production volumes year over year and improved pricing on new and renewal contracts signed in 2005.

US operations – EBITDA was consistent during the first quarters of 2006 and 2005. The Company’s Ohio operations resulted in a contribution to EBITDA of US\$0.2 million (CDN \$0.2 million). Michigan-based EBITDA decreased by US\$0.1 million from 2005.

## **INTEREST**

Interest expense is \$0.1 million lower in the first quarter of 2006 than in the first 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.

## **FOREIGN EXCHANGE**

The Company recognized a foreign exchange gain of \$0.1 million in the current period compared to a minimal loss during the first quarter of 2005. 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.

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

	2006	2005				2004		
	Q1	Q1	Q2	Q3	Q4	Q2	Q3	Q4
Sales	\$17,890	\$19,306	\$19,564	\$20,680	\$19,660	\$26,789	19,478	\$18,622
Net earnings (loss)	\$577	(\$340)	\$1,435	\$644	\$9,303	\$716	(\$126)	\$(12,092)
Per share	\$0.03	(\$0.02)	\$0.07	\$0.03	\$0.45	\$0.04	(\$0.01)	(\$0.64)

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

### Operating activities

Cash generated by operations of \$4.6 million in the first quarter of 2006 is \$3.6 million higher than in the same quarter in 2005. The increase is due to improved earnings in the current year and an improved working capital position. The increase in accounts payable is due to extended payment terms on capital expenditures.

### Investing activities

Net cash expenditures of \$12.0 million during the quarter compared to \$0.7 million in 2005. Substantially all of the current year expenditures relate to the new Oakville program.

### Financing activities

Repayment of long-term liabilities in the current quarter includes US\$0.5 million relating to the term credit facility with the balance relating to capital leases.

## UNUSED AND AVAILABLE FINANCING RESOURCES

Automodular has net cash and cash equivalents on hand at March 31, 2006 of \$2.3 million compared to cash on hand at March 31, 2005 of \$0.7 million. The Company has available to it a \$5 million operating line of credit. As previously disclosed, Automodular signed a \$6 million equipment financing agreement to facilitate the purchase of capital assets required for the new Oakville program.

## SHAREHOLDERS' EQUITY

Shareholders' equity increased from \$34.9 million at December 31, 2005 to \$35.3 million at March 31, 2006. There are 22,049,233 issued and outstanding shares as at the date of this filing.

## 2006 OUTLOOK

Significant resources are being allocated to the launch of the Company's 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.

In the Oshawa area, resources are being allocated for the new truck program for General Motors of Canada Limited scheduled for the fourth quarter of this year.

In Michigan, the Company was unsuccessful in its bid for expanded work for General Motors Corporation's Pontiac Assembly Plant, and will cease operations in Pontiac this June. At the same time, the scheduled closing of the Company's remaining Lansing operations has been extended one year to July, 2007.

Automodular continues to be impacted by industry and program risk and may experience further downtime in its operations as OEMs seek to balance inventory levels. Overall, 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; 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](http://www.sedar.com)

May 15, 2006