

## **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, 2005 and 2004 and should be read in conjunction with the interim unaudited consolidated financial statements for the three and six month periods ended June 30, 2005 and 2004 and the notes thereto. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars. Additional information about the Company, including its Annual Information Form, is available on SEDAR's website at [www.sedar.com](http://www.sedar.com).

Automodular Corporation ("Automodular" or "the Company") is a sequencer and sub-assembler of modules that are installed in cars and trucks assembled by General Motors ("GM") at plants in Canada and the United States. We employ in excess of 800 people in 8 operating facilities servicing 6 GM assembly plants. We operate more than 1.2 million square feet of plant space and provided sequencing and sub-assembly services for 1.6 million vehicles in 2004.

### **Overview**

Second quarter sales in 2005 decreased to \$19.6 million from \$26.8 million and net earnings decreased to \$0.6 million, or \$0.03 per share, from net earnings of \$0.7 million, or \$0.04 per share, for the same period in 2004. Year to date sales decreased from \$55.4 million in 2004 to \$38.9 million and net earnings decreased from \$1.8 million or \$0.09 per share to \$1.1 million or \$0.06 per share (all references to earnings per share refer to fully diluted earnings per share).

Accomplishments during the quarter included the following:

- The Company successfully negotiated an initial three year contract with the International Union, United Automobile, Aerospace and Agricultural Equipment Workers of America ("UAW") for its Ohio-based employees.
- The Company received a renewal contract for the sub-assembly and sequencing business that is performed out of its Whitby facility.
- Automodular was awarded an \$8 million 3-year contract from a Tier One supplier.
- The Company completed a rights offering which generated net cash proceeds of \$2.2 million.
- The Company began construction of a new 250,000 square foot facility in Oakville, Ontario. The new facility will start operations in October 2006.
- Subsequent to quarter-end, the Company reached an agreement to settle outstanding litigation for payment to the Company in the amount of \$11 million. The settlement is expected to be received by September 2005 and will be recorded as income in the third quarter.

Challenges included the following:

- Certain GM plants that Automodular service 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.

## **Results of operations**

The Company's comparative consolidated operating results for the three and six months ended June 30, 2005 and 2004 are as follows:

### Sales

Automodular's sales for the quarter decreased from \$26.8 million in 2004 to \$19.6 million during the second quarter of 2005.

Canadian operations - sales decreased by approximately \$2.6 million as a result of plant downtime and the closure of the Company's Pickering facility. Both car and truck volumes are below prior year levels and estimates.

US operations - Michigan based revenues were lower by US\$2.4 million. This is due to the elimination of the Lansing car plant operations effective June, 2004 combined with downtime experienced in Lansing Grand River operations and the change from a three-shift operation to a two-shift operation in the Pontiac truck assembly plant. The Ohio operations reached full production levels near the beginning of the first quarter of 2005 and generated second quarter sales of US\$1.3 million. The Company closed its Delaware based operations upon GM's termination of the production of the Saturn-L vehicle in 2004. In 2004, these operations generated sales of \$1.4 million. The balance of the decrease in revenues relates to the stronger Canadian dollar when converting US operations for reporting purposes.

### 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. It is defined as earnings before amortization, interest, stock option expense, foreign exchange and other income. It is not a defined term under Canadian Generally Accepted Accounting Principles ("GAAP") and therefore is unlikely to be comparable to similar measures presented by other companies.

EBITDA decreased from \$2.3 million in the second quarter of 2004 to \$1.4 million in the second quarter of 2005.

Canadian operations - EBITDA is lower by \$1.2 million compared to the second quarter of 2004. This is attributable to downtime, the removal of commodities relating to the closure of the Company's Pickering facility and higher labour costs. The majority of the

contracts in place in the Canadian operations were nearing the end of their terms at the end of the second quarter of 2005. The nature of the business is such that fixed pricing generates stronger profit levels in the earlier years of a contract. Inflationary pressures, customer pricing pressures and other events such as the certification of the workforce that are difficult to offset, create a drag on EBITDA and earnings during the later years of contracts

US operations – EBITDA from the Company's Michigan operations for the quarter was essentially flat compared to the prior year. EBITDA was reduced due to the downtime experienced in the Company's Lansing operations and the change from a three-shift operation to a two-shift operation in the Pontiac truck assembly plant. However, this was offset by accruals made in Q2 2004 relating to the closeout costs on expiring and terminating contracts. The Company's Ohio operations produced EBITDA of US\$0.2 million in the second quarter of 2005.

#### Amortization

Amortization for the quarter decreased to \$0.6 million from \$1.3 million in the second quarter of 2004. The decrease is due to the termination of the Company's Delaware operations as well as the write-off of intangible assets relating to the Michigan operations during the fourth quarter of 2004.

#### Interest

Interest expense for the quarter has decreased year over year due to repayments made on the term credit facility used to finance the acquisition of the Company's Michigan based operations.

#### Income taxes

The effective tax rate has decreased from 42.5% to 23.9% year to date. The effective tax rate of the Company has decreased due to the write-off of intangible assets in the fourth quarter of 2004 and the sale of the Company's Whitby facility reported in the first quarter. The 2004 income statement reflected non-tax-deductible amortization of the intangible assets and a portion of the gain on the sale of the facility was non-taxable to the Company.

#### Net earnings

Net earnings as a percent of sales decreased from 3.2% to 2.8% year to date for the reasons discussed previously.

## Historical quarterly data – rolling eight quarters

(all numbers in thousands except per share data)

	2005		2004				2003	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	\$19,564	\$19,306	\$18,622	\$19,478	\$26,789	\$28,648	\$27,947	\$25,359
Net earnings (loss)	\$573	\$523	(\$12,092)	(\$126)	\$716	\$1,057	\$666	(\$172)
Per share*	\$0.03	\$0.03	(\$0.64)	(\$0.01)	\$0.04	\$0.06	\$0.04	(\$0.01)

\* basic and diluted

## Financial condition, liquidity and capital resources

### Operating activities

Cash provided by operations for the second quarter of 2005 was \$1.5 million compared to cash used by operations of \$0.8 million in 2004. The increase is due to the timing of the payment of certain working capital balances.

### Investing activities

During the quarter, the Company spent \$1.6 million relating to the acquisition of property, plant and equipment and pre-production costs. This compared to \$0.3 million spent in the same period in 2004. The increase is due to funds expended relating to the new contract awards.

### Financing activities

Repayment of long-term liabilities in the current quarter includes \$1.7 million relating to the term credit facility with the balance relating to capital leases.

### Unused and available financing resources

Automodular has cash on hand at June 30, 2005 of \$1.1 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 of credit.

### Shareholders' equity

Shareholders' equity increased to \$25.5 million at the end of the second quarter of 2005 from \$22.1 million at the end of 2004 as a result of the earnings for the year to date and the issue of additional common shares as a result of the rights issue.

### Outstanding share data

(all dollars in thousands)

	2005		2004	
	# Outstanding	Dollars	# Outstanding	Dollars
Common shares	15,049,233	\$21,205	12,049,233	\$19,010
Class X shares	1,504,365	\$21,376	\$1,504,365	\$21,376
		\$42,581		\$40,386

Note: Class X shares were issued by a subsidiary and are exchangeable into 7,000,000 Common shares of the Company.

At June 30, 2005, 680,000 options to purchase Common shares of the Company were outstanding.

### Outlook

Management expects the operating results to improve. Recent sales initiatives by the OEM's have increased sales and decreased inventory levels. This will reduce or eliminate downweeks and will result in increased production through additional overtime shifts or extended workdays. Coupled with the benefit of several new and renewal contracts along with cost reduction initiatives the outlook is cautiously positive.

The timing of the transition of the existing Lansing business to a competitor remains indefinite. The Company has several new contract bids outstanding in the Lansing area. It is not yet possible to quantify the residual costs relating to this transition. The Company will disclose such information in the quarter in which it becomes determinable.

New and existing contract awards will require Automodular to expend approximately \$20 million of capital and pre-production expenses. The Company is in discussions with various financial institutions to secure the necessary financing and expects to announce its plans in the third quarter.

### 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 risks 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. 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.

**Dated: August 15, 2005**