

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

The following MD&A of our consolidated operating results and financial position is for the three months ended March 31, 2004 and 2003 and should be read in conjunction with the interim unaudited consolidated financial statements for the three months ended March 31, 2004 and 2003 and the Company's 2003 annual report.

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 at plants in Canada and the United States. We employ approximately 1,100 people in 8 facilities servicing 7 General Motors assembly plants. We operate more than 1.5 million square feet of plant space and provided sequencing and sub-assembly services for 1.8 million vehicles in 2003.

Overview

The current quarter was an eventful one for the Company. Sales increased to \$28.7 million from \$24.7 million and net earnings increased to \$1.1 million or \$0.06 per share from \$1.0 million or \$0.05 per share in 2003. The 2003 figures only include the results of operations of Tec-Mar for two months.

Accomplishments included the following:

- The Company was awarded contracts to sequence and sub-assemble components for the Lordstown, Ohio GM assembly plant for the Chevrolet Cobalt. Although production is expected to commence later in 2004, the contract will not be accretive to earnings until 2005.
- Quality metrics as measured by parts per million defect rates continued to trend in a positive direction. The Company continues to exceed GM's definition of a "world class" supplier which is defined as a parts per million defect rate of less than 25.

Challenges included the following:

- Production of the Saturn-L vehicle was down 80% compared to the same period in 2003. In March, 2004 General Motors Corporation announced the termination of production effective at the end of the third quarter of 2004. This production end date has subsequently been revised to June, 2004.
- A labour strike at a materials vendor resulted in the shutdown of the Pontiac assembly plant for 1.5 days in February, 2004 and resulted in lost production and higher expenses.
- In March, 2004 the Company learned that one of its contracts to sequence and sub-assemble components in its Canadian operations would not be renewed. The contract expires June, 2004.

Outlook

Given the challenges referred to above, the outlook for the year is difficult to predict. Management expects the year as a whole to be profitable with results similar to 2003. In

addition, employees of the Company's Canadian operations recently voted to be represented by the National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW – Canada). Contract negotiations are expected to take place later this year.

Automodular continues to seek further growth through awards of new business or through selective acquisitions in the automotive sector. The Company is engaged in an unprecedented volume of bidding activity. These opportunities are with GM, Tier 1 suppliers and other North American based OEM's. The Company continues to be optimistic of the opportunities available even in light of the recent setbacks. However, it is not possible to predict the results of this bidding activity.

New business awards typically require substantial funds to be expended prior to the commencement of commercial operations. Both capital and soft costs are incurred prior to the start of full production. Soft costs include all operating costs incurred during the ramp up or preproduction period. While some of the bids in process contemplate paying for the capital and soft costs up front, many contemplate rolling the payment of these costs into the variable unit price.

The capital requirements for growth will be met initially through internally generated funds. The Company will seek additional debt or equity financing as considered necessary.

Industry risks and trends

The following are some of the more significant risks and trends that could impact the Company and its future results:

Pricing pressures

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 impacted by various economic and political factors including interest rate, consumer demand and international conflicts.

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 would adversely reflect the reported results of the Company.

Program risk

Earnings may be adversely impacted by poor consumer demand for vehicles that the Company provides services for.

Results of operations

The Company's comparative consolidated operating results for the three months ended March 31, 2004 and 2003 are as follows:

(all numbers in thousands)

	<u>2004</u>	<u>% of sales</u>	<u>2003</u>	<u>% of sales</u>
Sales	\$ 28,648	100.0%	\$ 24,734	100.0%
COGS and other expenses	<u>25,627</u>	89.4%	<u>21,433</u>	86.7%
Earnings before the following:	<u>3,021</u>	10.6%	<u>3,301</u>	13.3%
Amortization	1,164	4.0%	990	4.0%
Interest expense	166	0.6%	122	0.5%
Stock option expense	8	0.0%	12	0.0%
Foreign exchange	(25)	0.0%	772	3.1%
Other income	<u>(34)</u>	-0.1%	<u>(155)</u>	-0.6%
	<u>1,279</u>	4.5%	<u>1,741</u>	7.0%
Pre-tax earnings	1,742	6.1%	1,560	6.3%
Income taxes	<u>685</u>	2.4%	<u>573</u>	2.3%
Net earnings	<u>\$ 1,057</u>	3.7%	<u>\$ 987</u>	4.0%

Sales

Automodular's sales increased from \$24.7 million to \$28.6 million during the first quarter. The prior year includes the results of Tec-Mar for February and March only since the acquisition was effective January 31, 2003.

Canadian operations - sales increased by approximately \$0.9 million as a result of increased volumes across all platforms.

US operations - the poor sales of the Saturn-L vehicle resulted in a decrease in sales from the Company's Wilmington operations of \$0.7 million US. Michigan based revenues were higher in February and March year over year due to the higher volumes of the Cadillac programs.

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. The Company defines the metric as noted in the above chart. 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 \$0.3 million from \$3.3 million to \$3.0 million in the first quarter.

Canadian operations - EBITDA is up \$0.2 million over 2003. Additional production volume has been offset by continued pricing pressures and inflationary cost increases. Current year EBITDA was also negatively impacted by various accruals relating to contract closeout costs.

US operations – EBITDA continues to be adversely affected by the poor sales of the Saturn-L vehicle. EBITDA for the quarter is \$0.2 million US lower than the prior year. Michigan based operations lost approximately \$0.2 million US in EBITDA due to the shutdown of the Pontiac GM truck assembly plant as a result of a strike at a part supplier. The removal of one shift of operations at the Lansing Car Assembly plant also resulted in a lower EBITDA contribution than in the prior year. Offsetting this loss of business was the additional Cadillac program volume referred to above. The inclusion of three months of Michigan based operations in 2004 compared to 2003 does not result in a significant increase in EBITDA for the quarter because January contained only 19 work days and within the automotive industry is not a strong month for production.

Amortization

Amortization increased to \$1.2 million from \$1.0 million. The increase is due to the inclusion of Tec-Mar for three months this year compared to two months last year.

Interest

Interest increased as a result of the timing of the acquisition of Tec-Mar in 2003.

Foreign exchange

Foreign exchange loss decreased substantially compared to 2003. In 2003, the Canadian dollar rose substantially in the first three months of 2003. The Canadian dollar has remained relatively stable compared to the US dollar during the first quarter of 2004.

Other income

Other income declined from 2003 by \$0.1 million. The Company has divested itself of the majority of its investment portfolio. The long-term investments remaining on the balance sheet relate to shares of Dominion Citrus Limited (“Dominion”) that are held to cover the Company’s obligation to deliver Dominion shares on options outstanding prior to the spinout of Dominion in 2001.

Income taxes

The effective tax rate has increased from 36.7% to 39.3%. This is due to an additional month in 2004 of the amortization of the purchase orders capitalized upon the acquisition of Tec-Mar. This amortization is not deductible for tax purposes. Additionally, non-taxable gains on investment income have decreased from 2003.

Net earnings

Net earnings as a percent of sales decreased from 4.0% to 3.7% for the reasons discussed beforehand.

Historical annual data

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

	2003	2002	2001
Sales	\$ 107,909	\$ 55,919	\$ 52,934
Net earnings	\$ 3,745	\$ 4,033	\$ 3,979
Earnings per share:			
- basic	\$ 0.20	\$ 0.21	\$ 0.27
- fully diluted	\$ 0.20	\$ 0.21	\$ 0.27
Total assets	\$ 53,804	\$ 42,806	\$ 46,660
Total long-term liabilities	\$ 9,216	\$ -	\$ -
Cash dividends per share	\$ 0.21	\$ 0.28	\$ 0.53

Historical quarterly data - rolling eight quarters

(all numbers in thousands)

	2004	2003		
	Q1	Q4	Q3	Q2
Sales	\$28,648	\$27,947	\$25,359	\$29,869
Amortization	\$ 1,164	\$ 1,557	\$ 1,305	\$ 1,159
Net earnings (loss)	\$ 1,057	\$ 666	\$ (172)	\$ 2,264

	2003	2002		
	Q1	Q4	Q3	Q2
Sales	\$24,734	\$14,485	\$13,574	\$14,236
Amortization	\$ 990	\$ 812	\$ 760	\$ 757
Net earnings (loss)	\$ 987	\$ 16	\$ 1,360	\$ 1,532

Financial condition, liquidity and capital resources

Operating activities

(all numbers in thousands)

	Mar 31, 2004	Mar 31, 2003
Net earnings	\$ 1,057	\$ 987
Non-cash items	1,167	1,506
Non-cash working capital	1,953	(4,398)
Cash from operations	\$ 4,177	\$ (1,905)

Cash from operations increased \$6.1 million from 2003 to 2004. The increase is primarily as a result of the change in non-cash working capital items. Cash flow was improved by increasing the turnover of accounts receivable and due to overpayments made in error to the Company amounting to \$2.1 million. These overpayments are included in accounts payable and accrued liabilities.

Investing activities

(all numbers in thousands)

	Mar 31, 2004	Mar 31, 2003
Purchase of PP&E (net)	\$ (253)	\$ (720)
Proceeds on disposal of inv.	234	20
Business acquisition	-	(28,850)
Cash from investing activities	\$ (19)	\$(29,550)

Net property, plant and equipment (purchases less proceeds on dispositions) decreased by \$0.5 million. More funds were expended in the same quarter last year relating to the consolidation of the Pontiac operations and on error-proofing technology.

The purchase price of the acquisition of Tec-Mar was \$28.9 million (net of cash acquired).

Financing activities

(all numbers in thousands)

	<u>Mar 31,</u> <u>2004</u>	<u>Mar 31,</u> <u>2003</u>
Issuance of shares	\$ -	\$ 50
Proceeds of long-term debt	-	17,500
Repayment of long-term debt	(978)	(875)
Dividends paid	-	(1,321)
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Cash from financing activities	\$ (978)	\$ 15,354

In 2003, the proceeds of \$17.5 million relate to the funds obtained to finance the acquisition of Tec-Mar. Repayment of debt in the current year includes \$875 relating to the term credit facility with the balance relating to capital leases.

Dividends were declared and paid at the rate of 7 cents per share for the first three quarters of 2003 totaling \$4.0 million. No dividends have been declared or paid since. The directors have decided to defer dividends for the time being, and will reconsider dividend policy when projected earnings and cash flows have greater visibility.

Unused and available financing resources

Automodular has cash on hand at March 31, 2004 of \$7.2 million compared to cash on hand at the end of 2003 of \$3.9 million. The Company also has available to it a \$5 million operating line.

Contractual obligations

Due by year

(all numbers in thousands)

Description	2004	2005	2006	2007	2008	Thereafter
Long-term debt	\$ 3,946	\$ 3,749	\$ 5,467	\$ -	\$ -	\$ -
Operating leases	<u>\$ 9,081</u>	<u>\$ 7,585</u>	<u>\$ 6,246</u>	<u>\$5,318</u>	<u>\$4,779</u>	<u>\$ 6,587</u>
Total obligations	<u>\$13,027</u>	<u>\$11,334</u>	<u>\$11,713</u>	<u>\$5,318</u>	<u>\$4,779</u>	<u>\$ 6,587</u>

Off balance sheet items and financial instruments

The Company's off balance sheet financing is limited to operating lease commitments and an interest rate swap agreement. Total commitments are disclosed in the chart above as extracted from the Company's 2003 annual report. The only material change in operating commitments in the current period relates to the post retirement commitment of \$500 disclosed in the notes to the interim financial statements. Although the Company's

commitments decline by year, existing leases will either be renewed or replaced resulting in lease commitments being sustained at current levels or being replaced by capital expenditures to acquire equivalent resources.

The Tec-Mar purchase price may be increased from 2003 to 2006 based on an annual EBITDA earnout. The purchase price will be increased for 50% of any Tec-Mar EBITDA that exceeds USD\$4,500 in each of the four years from 2003 through 2006 inclusive. If Tec-mar EBITDA falls below USD\$4,500 in any year such deficit will be deducted from the next year's EBITDA. The adjustment to the purchase price as a result of 2003 operations was CDN\$271 (USD\$195).

The Company is committed to an interest rate swap agreement on a portion of its US dollar denominated debt which expires December, 2005. The agreement subjects the Company to a fixed rate of 5.85% and the counterparty to a floating three-month US dollar LIBOR rate.

Shareholders' equity

Shareholders' equity increased from \$34.6 million to \$35.8 million. The increase is primarily due to the reduction in the deficit as a result of the earnings in the first quarter.

The number of common shares outstanding at March 31, 2004 is 12,064,233.

In addition, a subsidiary of the Company has 1,504,365 Class X shares outstanding which are exchangeable into 7,000,000 common shares of the Company. The Class X shares participate in the earnings and dividends of the Company as though they were common shares of the Company and accordingly are included in the calculation of weighted average common shares outstanding.

Accounting Policies

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. The nature of the estimates does not involve assumptions about matters that are highly uncertain. It is unlikely that any of the changes in these estimates would have a material impact on the future operations of the Company

The Company has not adopted any new or changed any existing accounting policies during the first quarter of 2004.

Changes in accounting policies reflected in 2003 annual financial statements

Deferred contract costs

During 2003, the Company elected to change its accounting policy in order to reflect a more conservative approach to accounting for its deferred contract costs. The revised

policy is more reflective of the policy adopted by the majority of the industry in which the Company operates while continuing to appropriately reflect the substance of the production contracts that the Company enters into. This change was applied retroactively and financial statements of prior periods were restated. The Company capitalizes costs incurred in establishing new production lines and facilities which require substantial commercial production capability. In the past, the Company amortized these costs on a straight line basis over the contract life commencing on the date commercial production is achieved. As the contract life was extended, the amortization term was lengthened. The revised policy will only amortize the costs over the original contract length.

The Company also incurs ongoing contract costs which provide a future benefit over the life of the contract. These costs were capitalized and amortized over the remaining life of the contract. This included costs incurred relating to plant consolidations and other customer initiated programs. The Company will now expense all such costs in the period incurred.

The impact on the 2003 annual financial statements was the elimination of deferred contract costs on the balance sheet at December 31, 2003. The impact on earnings for 2003 was an increase of \$0.1 million and for 2002 a decrease of \$0.6 million. The notes to the financial statements detailed the specific adjustments involved.

Stock-based compensation

Effective January 1, 2003 the Company elected to account for its stock option awards using the fair value method. Previously, the Company accounted for stock option awards using the intrinsic method which resulted in no expense being recorded. This change in accounting policy was adopted prospectively and resulted in compensation expense being recorded in 2003 of \$0.03 million.

Critical accounting policy

The Company believes that the following accounting policy is critical because it involves significant judgment and estimates to be used.

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. A portion of Automodular's goodwill arose upon acquisition of the Canadian operations in 1997, with the balance relating to the acquisition of Tec-Mar in 2003. Intangible assets include the fair value of the Tec-Mar purchase orders in place upon acquisition.

The Company is required to evaluate the carrying value of its goodwill and intangibles on an annual basis. An analysis was completed in 2003 and Automodular determined that no write-down was necessary.

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 affect 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.

Additional information regarding the Company, including the Annual Information Form, can be found at SEDAR at www.sedar.com.

Dated: April 30, 2004