

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

The following MD&A of the consolidated operating results and financial position of Automodular Corporation ("Automodular" or the "Company") is for the three and nine month periods ended September 30, 2005 and 2004 and should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine month periods ended September 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 is a sequencer and sub-assembler of modules that are installed in cars and trucks assembled by Original Equipment Manufacturers ("OEMs") at plants in Canada and the United States. We employ in excess of 800 people in 8 operating facilities servicing 6 final 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**

Third quarter sales in 2005 increased to \$20.7 million from \$19.5 million and net earnings increased to \$0.6 million, or \$0.03 per share, from net loss of \$0.1 million, or \$0.01 per share, for the same period in 2004. Year to date sales decreased from \$74.9 million in 2004 to \$59.6 million and net earnings increased from \$1.6 million or \$0.09 per share to \$1.7 million or \$0.08 per share (all references to earnings per share refer to fully diluted earnings per share).

Accomplishments during the quarter included the following:

- The Company was awarded additional business for its new Oakville facility. The contract will fill the remaining space in the facility, with commercial production expected to commence in the fourth quarter of 2006.
- Due to the success of Employee Pricing Programs initiated by OEMs, production levels at several of the assembly plants that we service were strong, resulting in additional revenues for the Company.
- The Company commenced shipment of prototype units from a temporary facility in Michigan. The prototype units were produced in connection with business at the Company's new Oakville facility, which will commence commercial production in the fourth quarter of 2006.

Challenges included the following:

- The transition of the Company's Lansing, Michigan business to a competitor continued during the quarter. The transition is expected to continue until the second quarter of 2006.

## **Subsequent Event**

Subsequent to quarter-end, the agreement the Company reached to settle outstanding litigation for payment by Brascan Corporation to the Company of \$11 million received final court approval. The settlement amount was received in October 2005 and will be recorded as income in the fourth quarter.

## **Results of operations**

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

### Sales

Automodular's sales for the quarter increased from \$19.5 million in the third quarter of 2004 to \$20.7 million during the third quarter of 2005. The current year to date sales in 2005 is \$60.0 million, compared to year to date sales of \$75.0 million in 2004.

Canadian operations - sales increased by approximately \$2.2 million during the third quarter as a result of renewed contracts in both truck and car operations, as well as the new business awarded during the second quarter which is being carried out in the Company's new Pickering facility. Year to date sales decreased by \$5.2 million due to the loss of certain contracts in 2004 and lower overall production volumes.

US operations - the increase in sales resulting from Canadian operations was offset by a net decrease of approximately \$1.0 million from our US operations after converting USD revenues to Canadian dollars. Our Wilmington Delaware operations closed down during the fourth quarter of 2004. In the third quarter 2004, these operations produced sales of US\$0.6 million. Michigan-based revenues were lower by US\$1.4 million in the third quarter 2005 compared to the same period in 2004. This was due to the transition of several commodities from our Lansing operations to one of our competitors and also the change from a three-shift operation to a two-shift operation in the Pontiac truck assembly plant, effective January 2005. On the other hand, Ohio operations reached full production levels near the beginning of the first quarter of 2005 and generated third quarter sales of US\$1.2 million. In addition, the commencement of the prototype shipments generated third quarter sales of US\$0.9 million. However, the stronger Canadian dollar resulted in a decrease in revenues of approximately \$1.0 million as a result of converting US operations for reporting purposes. Year to date sales decreased by US\$6.3 million due to the loss of certain Lansing contracts and lower production volumes primarily as a result of the elimination of the third shift in Pontiac.

### Earnings before Interest, Taxes, Amortization and other non-cash items

Automodular uses an EBITDA metric as a measure of cash operating earnings. This metric, widely used in evaluating the operating performance of companies in the

automotive industry, is defined as earnings before amortization, interest, stock option expense, foreign exchange and other income. It is not a defined term under Canadian GAAP and therefore is unlikely to be comparable to similar measures presented by other companies.

EBITDA increased from \$0.5 million in the third quarter of 2004 to \$1.7 million in the third quarter of 2005.

Canadian operations - EBITDA is higher by \$0.9 million compared to the third quarter of 2004. This is attributable to the renewed contracts for both truck and car operations and the new business awarded during the second quarter of 2005 at our new Pickering facility. The majority of the contracts in place in the Canadian operations are now at the beginning of their terms. 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 create a drag on EBITDA and earnings during the later years of contracts. In addition, certain new and renewed contracts now contain both a fixed and variable pricing component. The fixed component ensures costs are at least partially recovered during both scheduled and unscheduled plant downtimes, which positively impacted the Company's current year EBITDA. The prior year's contract did not include a fixed pricing component, and as such, during the two week July shutdown, the Company recorded no revenue. However, this year, the Company recorded sales during the shutdown period equal to the two week portion of the fixed pricing component.

US operations - EBITDA increased by US\$0.3 million this quarter compared to the previous year. Our Ohio operations produced EBITDA for the quarter of US\$0.1 million and Michigan operations benefited from stronger volumes and the new fixed/variable pricing contracts as described above.

#### Amortization

Amortization for the quarter decreased to \$0.8 million from \$1.1 million in the third quarter of 2004. The decrease is primarily due to the write-off of intangible assets relating to the Company's Michigan-based 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 42.4% to 29.3% year to date. Overall 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 of 2005. The 2004 income statement reflected non-tax-deductible amortization of the intangible assets. In addition, in 2005 a portion of the gain on the sale of the Whitby facility was non-taxable to the Company.

### Net earnings

Net earnings as a percent of sales increased from 2.2% 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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales	\$20,680	\$19,564	\$19,306	\$18,622	\$19,478	\$26,789	\$28,648	\$27,947
Net earnings (loss)	\$576	\$573	\$523	(\$12,092)	(\$126)	\$716	\$1,057	\$666
Net earnings (loss) per share*	\$0.03	\$0.03	\$0.03	(\$0.64)	(\$0.01)	\$0.04	\$0.06	\$0.04
*basic and diluted								

### **Financial condition, liquidity and capital resources**

#### Operating activities

Cash used in operations for the third quarter of 2005 was \$1.8 million compared to cash used by operations of \$2.1 million during the third quarter of 2004. The Company's investment in accounts receivable increased substantially due to a change in payment terms on certain contracts that were renewed. In addition, the Company has received corporate tax refunds of \$1.3 million year to date.

#### Investing activities

During the quarter, the Company spent \$1.1 million relating to the acquisition of property, plant and equipment and pre-production costs. This compared to \$0.1 million spent in the same period in 2004. The year to date increase is due to funds expended relating to the new contract awards that the Company received during the first quarter.

#### Financing activities

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

The net proceeds received from the second quarter rights offering have been used to fund expenditures relating to new contract awards.

#### Unused and available financing resources

The Company has available to it a \$5 million operating line of credit. At quarter-end, on a book basis, the Company had drawn \$2.4 million. On a cash basis, the Company had drawn \$1.3 million of the line.

#### Shareholders' equity

Shareholders' equity increased to \$25.6 million at the end of the third 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 subscription for additional common shares as a result of the rights issue, which raised \$2.2 million.

#### Outstanding share data (all dollars in thousands)

	<u>September 30, 2005</u>		<u>September 30, 2004</u>	
	<u>Shares Outstanding</u>	<u>Dollars</u>	<u>Shares Outstanding</u>	<u>Dollars</u>
Common shares	22,049,233	\$ 21,190	19,049,233	\$ 19,010
Class X Shares	1,504,365	\$ 21,376	1,504,365	\$ 21,376
		<u>\$ 42,566</u>		<u>\$ 40,386</u>

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

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

#### **Outlook**

Industry conditions continue to be volatile, as such it is difficult to project earnings. Despite these conditions, Automodular does expect results from operations to be profitable during the fourth quarter.

The timing of the transition of the existing Lansing business to a competitor has been finalized, with the last of the current Lansing operations being transitioned in June 2006. The Company has been asked to bid on new contract awards in the Lansing area. The Company expects to be in a position to better quantify these costs during the fourth quarter of 2005.

New and existing contract awards will require Automodular to expend approximately \$25 million of capital and pre-production expenses. These expenditures will be funded in part by the proceeds from the legal settlement. The Company expects to finalize the balance of the required financing in the fourth quarter.

The Company does not expect to see significant 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 addressed.

### **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 inherent in the automotive industry. These and other material factors 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 OEMs; new program launch risks and other changes in the business environment in which we operate. Except where required by law, 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: November 4, 2005**