

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

The following MD&A of our consolidated operating results and financial position is for the three and nine month periods ended September 30, 2004 and 2003 and should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine month periods ended September 30, 2004 and 2003 and the notes thereto as well as 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 1,000 people in 8 facilities servicing 5 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

Third quarter sales decreased to \$19.5 million from \$25.4 million and net loss decreased to \$0.1 million from \$0.2 million or \$0.01 per share for the same period in 2003. Year to date sales are \$74.9 million compared to \$80.0 million in 2003 and net earnings \$1.6 million or \$0.09 per share compared to \$3.1 million or \$0.16 per share (all references to earnings per share refer to fully diluted). The 2003 figures only include the results of operations of Tec-Mar Distribution Services, Inc. ("Tec-Mar") for eight months.

Accomplishments during the quarter included the following:

- The Company negotiated two union contracts. An initial three year contract was reached with the National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW – Canada). In addition, Automodular negotiated a three year extension of its contract with the UAW for its Michigan based operations.
- Significant time and resources have been and continue to be allocated for the contract start up of the Company's Ohio operations. All efforts are focused on executing a flawless launch of the program, with production to commence in the fourth quarter and full volume achieved January 2005. The Company was awarded a contract during the first quarter of this year to sequence and sub-assemble components for the Lordstown, Ohio GM assembly plant for the Chevrolet Cobalt.

Challenges included the following:

- As previously reported, production of the Saturn-L vehicle was terminated in June 2004. The Company elected not to bid on sequencing orders for the new vehicle and accordingly, the plant has been closed.

- As reported in the second quarter, Automodular's contract to sub-assemble and sequence certain commodities for the Oshawa Car Assembly plants was not renewed. The Company will close its Pickering facility by year-end.
- The General Motors assembly plants that the Company serves experienced difficulties meeting expected production volumes within standard working hours. This was exacerbated by the 2005 model year changeover and a supplier strike which impacted Oshawa's car operations.
- Subsequent to the end of the third quarter, Automodular learned that it was not successful in its bid to extend and expand its contracts for sequencing services for Lansing Grand River car assembly plant. The existing contracts expire in late 2005 and 2006. In the absence of new business awards, the Company will close its Lansing facilities.
- Also subsequent to quarter end, the Company learned that the Pontiac truck assembly plant will change from a three shift operation to a two shift operation effective January 2005.

Outlook

Management expects the fourth quarter to be breakeven from operations prior to any writedowns required on capital assets, goodwill and intangible assets. Results will be affected by the start up costs of the two new facilities (in Ohio and Oshawa) and the sales and production levels of the vehicles for which the Company supplies components.

As a result of the contracts in Lansing not being extended and the reduction from three shifts to two shifts in Pontiac operations, the Company is in the process of reviewing the carrying value of its capital assets, goodwill and intangible assets and expects to record a write-down in the fourth quarter.

Automodular has been selected as the preferred source for a major program to sub-assemble and sequence complex components for another OEM subject to completion of a definitive agreement. The Company will announce details of the program if and when an agreement is reached.

The Company does not expect to see earnings growth until 2006. At such time, full-scale production should be achieved in the Company's new facilities and the costs of closing excess facilities will have been recorded.

Automodular continues to seek further growth through awards of new business or through selective acquisitions in the automotive sector. The Company continues to bid for contracts with GM, Tier 1 suppliers and other North American based OEM's.

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.

Results of operations

The Company's comparative consolidated operating results for the three and nine months ended September 30, 2004 and 2003 are as follows:

Sales

Automodular's sales for the quarter decreased from \$25.4 million to \$19.5 million during the quarter.

Canadian operations - sales decreased by approximately \$1.7 million as a result of lower volumes and the removal of commodities relating to the loss of business at the Company's Pickering facility. Both car and truck volumes are below prior year levels and estimates.

US operations - the poor sales of the Saturn-L vehicle resulted in a decrease in sales from the Company's Wilmington operations of \$1.0 million US. Michigan based revenues were lower by \$2.0 million as a result of the lower Lansing car production offsetting higher volume in the Cadillac programs. Truck volumes in the Company's Pontiac facility are consistent with expectations. Part of the decrease in revenues is also due to the stronger Canadian dollar in 2004 as compared to the same period in 2003.

Sales year to date are \$74.9 million compared to \$80.0 million in 2003. The 2003 results only include the results of Tec-Mar for eight months.

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 GAAP and therefore is unlikely to be comparable to similar measures presented by other companies.

EBITDA decreased from \$1.1 million in 2003 to \$0.5 million in the current quarter.

Canadian operations - EBITDA is lower by \$1.1 million over 2003. This is attributable to volume decreases as well as the transition of the removal of commodities relating to the loss of business at the Company's Pickering facility including provisions relating to

the closeout of the contracts. During the current quarter, the Company incurred additional costs relating to the reallocation of staff as a result of the Pickering contract closeout as well as issues encountered as part of the 2005 model year changeover.

US operations – In Michigan, the removal of the Lansing Car contracts had a negative impact. Offsetting this loss of business was the additional Cadillac program volume previously referred to. However, this program is still not meeting volume expectations and is working extended hours in an effort to meet volumes.

EBITDA for the year to date is \$5.8 million compared to \$8.9 million in 2003.

Amortization

Amortization for the quarter decreased to \$1.1 million from \$1.3 million in 2003. The decrease is due to the termination of the Company's Delaware operations as well as the additional charges booked in the second quarter relating to expiring contracts in Oshawa and Lansing.

Amortization year to date is \$3.6 million compared to \$3.5 million in 2003.

Interest

Interest expense for the quarter and for the year has decreased year over year due to repayments made on the term credit facility used to finance the acquisition of Tec-Mar.

Foreign exchange

The Company has realized foreign exchange gains of \$0.6 million compared to losses of \$0.4 million for the same three quarters in 2003. This is due to realized gains on the repayment of a portion of the USD credit facility.

Other income

Other income of \$0.5 million is consistent with 2003. The Company completed its divestiture of its investment portfolio in the current quarter.

Income taxes

The effective tax rate has increased from 37.6% to 42.4% year to date. This is due to the amortization of the purchase orders capitalized upon the acquisition of Tec-Mar combined with the lower pre-tax earnings.

Net earnings

Net earnings as a percent of sales decreased from 3.9% to 2.2% year to date for the reasons discussed previously.

Historical quarterly data – rolling eight quarters

(all numbers in thousands)

	2004			2003				2002
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales	\$19,478	\$26,789	\$28,648	\$27,947	\$25,359	\$29,869	\$24,734	\$14,485
Amortization	\$1,115	\$1,288	\$1,164	\$1,557	\$1,305	\$1,159	\$990	\$812
Net earnings (loss)	(\$126)	\$716	\$1,057	\$666	(\$172)	\$2,263	\$987	\$16

Financial condition, liquidity and capital resources

Operating activities

Cash from operations for the nine month period is \$1.3 million compared to \$1.8 million in 2003. The decrease is primarily due to the lower earnings. The increase in prepaid expenses in the current year is due in large part to a deposit of \$0.8 million relating to the Company's new Oshawa facility as well as prepaid rental payments on existing facilities.

Cash from operations for the quarter is down \$1.6 million compared to 2003. This is primarily due to the prepaid rental payments as well as the repayment of overpayments made in error to the Company in the previous quarter.

Investing activities

Net property, plant and equipment (purchases less proceeds on dispositions) decreased by \$1.9 million for the nine month period and by \$0.8 million for the current quarter compared to last year. In 2003, costs were incurred relating to the consolidation of the Pontiac operations, additions of errorproofing technology and the opening of one of the Company's Lansing facilities.

Financing activities

Repayment of long-term liabilities in the current year includes \$0.9 million per quarter relating to the term credit facility with the balance relating to capital leases.

No dividends have been paid in the current year. In the fourth quarter of 2003, the directors decided to defer dividends 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 September 30, 2004 of \$2.2 million compared to cash on hand at the end of 2003 of \$3.9 million. The Company has available to it a \$5 million operating line of credit.

Shareholders' equity

Shareholders' equity increased to \$34.9 million from \$34.6 million. The reduction in the deficit as a result of the earnings for the year is offset by the increased cumulative translation adjustment as a result of the increased strength of the Canadian dollar and the resulting impact on the Company's investment in its Michigan based operations.

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. 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 8, 2004