

# Consolidated Balance Sheets

as at December 31, 2002 and 2001

	2002	2001 <i>Restated</i>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 18,310,248	\$ 19,462,922
Investments (trading value \$442,992; 2001 – \$277,209)	273,299	273,570
Receivables ( <i>Note 2</i> )	2,504,039	5,203,677
Prepaid expenses	2,288,571	1,875,852
Income taxes receivable	1,108,142	64,197
Current portion of loans receivable ( <i>Note 3</i> )	–	450,715
	<u>24,484,299</u>	<u>27,330,933</u>
<b>LONG-TERM INVESTMENTS</b>	283,268	417,344
<b>LOANS RECEIVABLE</b> ( <i>Note 3</i> )	–	31,765
<b>FUTURE INCOME TAXES</b> ( <i>Note 10</i> )	–	481,770
<b>CAPITAL ASSETS</b> ( <i>Note 4</i> )	6,663,247	7,661,851
<b>OTHER ASSETS</b> ( <i>Note 5</i> )	13,651,635	12,187,432
	<u>\$ 45,082,449</u>	<u>\$ 48,111,095</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 5,812,215	\$ 4,249,691
Current portion of long-term liabilities ( <i>Note 7</i> )	–	3,092,800
	<u>5,812,215</u>	<u>7,342,491</u>
<b>FUTURE INCOME TAXES</b> ( <i>Note 10</i> )	749,909	–
<b>ACCRUED PENSION COST</b> ( <i>Note 12</i> )	–	88,700
<b>LONG-TERM LIABILITIES</b> ( <i>Note 7</i> )	–	1,991,000
	<u>6,562,124</u>	<u>9,422,191</u>
Contingencies and Commitments ( <i>Note 13</i> )		
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b> ( <i>Note 8</i> )	39,613,186	39,148,986
<b>DEFICIT</b>	(1,092,861)	(460,082)
	<u>38,520,325</u>	<u>38,688,904</u>
	<u>\$ 45,082,449</u>	<u>\$ 48,111,095</u>

Signed on behalf of the Board

“Michael F. Blair”

Director

“Alan R. Marchment”

Director

## Consolidated Statements of Retained Earnings

Years ended December 31, 2002 and 2001

	2002	2001 <i>RESTATED</i>
<b>BALANCE – BEGINNING OF YEAR</b>	\$ (460,082)	\$ 1,972,979
Net earnings for the year	4,639,910	4,344,281
Cash dividends	(5,272,689)	(6,777,342)
<b>BALANCE – END OF YEAR</b>	<u>\$ (1,092,861)</u>	<u>\$ (460,082)</u>

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statements of Earnings

Years ended December 31, 2002 and 2001

	2002	2001 <i>RESTATED</i>
<b>SALES</b>	\$ 55,919,009	\$ 52,933,898
<b>COST OF SALES AND OTHER EXPENSES</b>	47,063,614	44,104,277
<b>EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING</b>	<u>8,855,395</u>	<u>8,829,621</u>
Amortization	3,351,959	3,546,669
Interest expense	42,452	552,185
Other income ( <i>Note 9</i> )	(1,294,506)	(1,805,830)
	<u>2,099,905</u>	<u>2,293,024</u>
<b>EARNINGS BEFORE INCOME TAXES</b>	6,755,490	6,536,597
<b>INCOME TAXES</b> ( <i>Note 10</i> )	<u>2,115,580</u>	<u>2,192,316</u>
<b>NET EARNINGS FOR THE YEAR</b>	<u>\$ 4,639,910</u>	<u>\$ 4,344,281</u>
<b>Earnings per share</b>		
Basic	<u>\$ 0.25</u>	<u>\$ 0.29</u>
Fully diluted	<u>\$ 0.25</u>	<u>\$ 0.29</u>
Weighted average common shares outstanding	11,829,359	11,162,764
Exchangeable Class X shares ( <i>Note 8 (e)</i> )	7,000,000	3,720,548
Basic weighted average common shares outstanding	<u>18,829,359</u>	<u>14,883,312</u>
Basic weighted average common shares outstanding	18,829,359	14,883,312
Incremental shares from stock options and warrants	106,647	155,805
Fully diluted weighted average common shares outstanding	<u>18,936,006</u>	<u>15,039,117</u>

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statements of Cash Flows

Years ended December 31, 2002 and 2001

	2002	2001 <i>RESTATED</i>
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATIONS</b>		
Net earnings for the year	\$ 4,639,910	\$ 4,344,281
Items not involving current cash flows <i>(Note 11)</i>	3,594,967	3,134,650
Net change in non-cash working capital <i>(Note 11)</i>	2,805,769	(2,738,032)
	<u>11,040,646</u>	<u>4,740,899</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital and other assets	(3,162,882)	(1,897,113)
Proceeds on disposal of capital and other assets	1,012,989	52,710
Funding of pension plan	(1,577,400)	-
Proceeds on disposal of long-term investments	990,915	1,782,147
Repayment on long-term receivable	-	107,696
Repayment of loans receivable	422,297	202,358
	<u>(2,314,081)</u>	<u>247,798</u>
<b>FINANCING ACTIVITIES</b>		
Issue of common shares	464,200	992,800
Issue of Class X shares by a subsidiary <i>(Note 8(e))</i>	-	20,847,948
Repayment of bank indebtedness	-	(2,000,000)
Repayment of long-term liabilities	(5,070,750)	(3,535,200)
Cash dividends paid	(5,272,689)	(6,777,342)
	<u>(9,879,239)</u>	<u>9,528,206</u>
<b>CHANGE IN CASH</b>	(1,152,674)	14,516,903
<b>CASH – BEGINNING OF YEAR</b>	19,462,922	4,946,019
<b>CASH – END OF YEAR</b>	<u>\$ 18,310,248</u>	<u>\$ 19,462,922</u>

The accompanying notes are an integral part of these consolidated financial statements.

# Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principles of Consolidation

The consolidated financial statements include the accounts of Automodular Corporation and its wholly owned subsidiaries (the "Company") and have been prepared following Canadian generally accepted accounting principles.

### Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### Financial Instruments and Risk Management

The carrying value of cash, short-term investments, receivables, income taxes receivable, accounts payable and accrued liabilities are considered to be representative of their respective values due to their short-term nature.

The fair value of long-term financial instruments approximate carrying values since actual rates approximate market rates.

### Investments

Short-term investments are recorded as current assets and are carried at the lower of cost or trading value.

Long-term investments in which the Company has significant influence but not control, are accounted for by the equity method. Other long-term investments are carried at cost less any write-downs for impairments that are other than temporary.

### Capital Assets

Capital assets are stated at cost and are amortized on the diminishing balance method at annual rates ranging from 20% to 40%. Open projects are assets not currently available for use and will be reclassified to their appropriate classification upon project completion.

### Acquisition Costs

Acquisition costs are capitalized and amortized on a straight-line basis over 5 years.

### Deferred Contract Costs

Costs incurred in establishing new production lines and facilities which require substantial time to reach commercial production capability are capitalized. In addition, contract costs incurred which provide a future benefit over the life of the contract are capitalized. Amortization of these costs is provided over the remaining life of the contract, commencing on the date commercial production is achieved.

### Goodwill

Goodwill represents the excess of the purchase price of the Company's interest in subsidiary entities over the fair value of the underlying net identifiable tangible and intangible assets arising on acquisition.

Commencing January 1, 2002 the Company adopted the Canadian Institute of Chartered Accountants (CICA) new recommendations under Handbook Section 3062 "Goodwill and Other Intangible Assets" and Handbook Section 1581 "Business Combinations" which were issued in 2001.

The new standards require non-amortization of existing and future goodwill and intangible assets that meet the criteria for indefinite life. Since goodwill is no longer amortized, the Company must determine at least once annually whether the fair value of the existing goodwill and intangible assets has been permanently impaired. Any permanent impairments are then recorded as a separate charge against earnings and a reduction of the carrying value of goodwill and intangible assets. Upon adoption of the new Sections, the Company evaluated the carrying value of its goodwill and intangible assets and determined that no write-down was necessary.

If the Company had retroactively adopted the accounting policy change of not amortizing goodwill, net earnings for the year ended December 31, 2001 would have been increased by \$382,484. Basic and diluted earnings per share would have increased by \$0.03 to \$0.32 per share from \$0.29 per share.

### Pension Plans

The Company has both defined contribution and defined benefit pension plans. The costs of defined contribution pension plans, representing the Company's required contribution, and the costs of defined benefit pension plans, determined based on the actuarial present value of future expected benefits attributed to the period, are charged to earnings in the period. Adjustments arising from plan amendments, experience gains and losses and changes in actuarial assumptions are amortized to earnings over the expected average remaining service lives of the respective employees.

# Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

## Foreign Exchange

Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Other assets and liabilities and revenue and expense transactions are translated at the actual rates of exchange in effect at the time of the transaction. In 2001, exchange gains and losses were included in income except for currency translation adjustments relative to long-term monetary items with a fixed and ascertainable life which were deferred and amortized on a straight-line basis over the life of the item.

In August 2001, the CICA amended Handbook Section 1650 "Foreign Currency Translation" (the "Section") to eliminate the deferral and amortization of foreign currency translation gains and losses on long-term monetary items, effective January 1, 2002. As required by the amended Section, the Company has retroactively restated all comparative information. As a result, the Company reduced other assets by \$242,070 with a corresponding increase in opening deficit as of January 1, 2002. The Company's earnings for the year ended December 31, 2001 has been decreased by \$286,870 (\$0.02 per share) and retained earnings as at January 1, 2001 was increased by \$44,800.

## Income Taxes

The Company uses the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

## Adoption of New Accounting Standard for Earnings per Share

During 2001, the Company adopted the new CICA recommendations for the calculation of earnings per share. Under the new accounting policy, the calculation of diluted earnings per share requires the use of the treasury method and assumes any option or warrant proceeds would be used to purchase common shares at the average market price during the period.

## Stock-Based Compensation

In December 2001, the CICA issued Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments." Effective for the Company's fiscal year beginning January 1, 2002, the new Section requires the use of a fair-value based approach of accounting for certain specified stock-based awards. For all other employee stock-based awards, the Section encourages but does not require that a fair-value based approach be used.

The Company records no expense when it issues options. Accordingly, the Section requires that the Company disclose pro forma net earnings and earnings per share data as if the fair-value based approach were used for options granted in 2002.

## 2. RECEIVABLES

	2002	2001
Trade	\$ 2,483,081	\$ 4,885,207
Other	20,958	318,470
	<u>\$ 2,504,039</u>	<u>\$ 5,203,677</u>

The Company, in the normal course of business, is exposed to credit risk from its customers—all of which are in the automotive industry. These accounts receivable are subject to normal industry credit risks. As at December 31, 2002, 91% (2001 – 91%) of trade receivables were due from General Motors Corporation.

The Company has long-term contracts with General Motors Corporation. Substantially all of its sales are made to General Motors Corporation.

## 3. LOANS RECEIVABLE

The Company has made interest-bearing and interest-free loans to an officer and senior employees in connection with the employee stock purchase plan. All stock purchase loans must be repaid within ten years of inception or earlier at the option of the Company upon the termination, retirement or death of a plan member.

	2002	2001
Interest-free loans to senior employees, repayable from dividends in respect of the shares. As at December 31, 2001 the loans were secured by 7,958 common shares of the Company having a trading value of \$31,036. During 2002, \$1,407 was repaid and the balance of \$30,358 was cancelled.	\$ -	\$ 31,765
Interest-bearing loan to an officer with interest equal to the dividends paid in respect of the shares. As at December 2001 the loan was secured by 100,000 common shares of the Company having a trading value of \$390,000. During 2002, \$420,890 was repaid and the balance of \$29,825 was cancelled.	-	450,715
	-	482,480
Deduct: Current portion	-	450,715
	<u>\$ -</u>	<u>\$ 31,765</u>

During 2002, \$422,297 (2001 – \$202,358) was repaid on the interest-free loans.

# Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

## 4. CAPITAL ASSETS

	2002			2001
	Cost	Accumulated Amortization	Net	Net
Land, buildings and leasehold improvements	\$ 5,428,112	\$ 2,360,588	\$ 3,067,524	\$ 3,271,161
Manufacturing equipment	5,710,733	3,903,571	1,807,162	1,894,115
Other equipment and furniture	2,460,438	1,478,683	981,755	1,040,097
Open projects	806,806	-	806,806	1,456,478
	<u>\$ 14,406,089</u>	<u>\$ 7,742,842</u>	<u>\$ 6,663,247</u>	<u>\$ 7,661,851</u>

## 5. OTHER ASSETS

	2002			2001
	Cost	Accumulated Amortization	Net	Net
Goodwill	\$ 23,474,542	\$ 14,060,353	\$ 9,414,189	\$ 9,414,189
Acquisition costs	266,147	266,147	-	48,795
Deferred contract costs	8,271,073	5,355,427	2,915,646	2,724,448
Pension fund asset (Note 12)	1,321,800	-	1,321,800	-
	<u>\$ 33,333,562</u>	<u>\$ 19,681,927</u>	<u>\$ 13,651,635</u>	<u>\$ 12,187,432</u>

## 6. CREDIT FACILITIES

The Company has available to it a revolving credit facility with a limit of \$2,000,000. It is secured by the Company's present and future assets, properties and undertakings. Interest is calculated at the bank's prime rate of interest plus  $\frac{3}{4}\%$ . The effective interest rate at December 31, 2002 was 5.25% (2001 - 4.75%).

## 7. LONG-TERM LIABILITIES

	2002	2001
Non-revolving term credit facility, repayable in quarterly principal instalments of \$500,000, with a final payment of \$1,500,000 on March 31, 2002, bearing interest at the bank's prime rate of interest plus $\frac{3}{4}\%$ . The effective interest rate at December 31, 2001 was 4.75%. The credit facility was repaid during the year.	\$ -	\$ 1,500,000
US\$ non-revolving term credit facility, repayable in quarterly principal instalments of \$398,200 (US\$ 250,000) with a final principal payment of \$1,592,800 (US\$ 1,000,000) due on June 30, 2003, bearing interest at LIBOR plus 1.75%. The interest rate at December 31, 2001 was 3.98%. The credit facility was repaid during the year.	-	3,583,800
	-	5,083,800
Deduct: Current portion	-	3,092,800
	<u>\$ -</u>	<u>\$ 1,991,000</u>

Interest expense on long-term liabilities amounted to \$42,452 (2001 - \$494,537).

## 8. CAPITAL STOCK

### (a) Authorized

Unlimited number of common shares.

### (b) Issued - Common Shares

	Number of Shares	Amount
Balance - December 31, 2000	10,605,566	\$ 16,780,538
Share options exercised	392,000	992,800
Share exchange (Note 8(c))	698,667	-
Balance - December 31, 2001	11,696,233	17,773,338
Share options exercised	173,000	464,200
Balance - December 31, 2002	<u>11,869,233</u>	<u>\$ 18,237,538</u>

### Class X shares issued by a subsidiary (Note 8(e))

	Number of Shares	Amount
Balance - December 31, 2000	-	\$ -
Issued during 2001	1,504,365	21,375,648
Balance - December 31, 2001 and 2002	<u>1,504,365</u>	<u>\$ 21,375,648</u>
<b>Total</b>		<u>\$ 39,613,186</u>

### (c) Share Exchange

In 2001, the Company acquired the remaining 13% interest in its subsidiary from related parties in exchange for the issuance of 698,667 common shares of the Company. The transaction was recorded at the carrying value of the investment.

# Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

## (d) Warrants

As at December 31, 2002, 100,000 warrants, exercisable by December 31, 2003, which entitle the holder to purchase one common share of the Company at a price of \$6.00 per share per warrant, were outstanding.

## (e) Class X shares

During 2001, a subsidiary of the Company issued 1,504,365 Class X shares, for gross proceeds of \$22,400,000 which are exchangeable into 7,000,000 common shares of the Company. Costs of \$1,552,052 associated with the share issue and a future tax benefit of \$527,700 were netted against the gross proceeds of \$22,400,000. The 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.

## (f) Options

Under the Company's stock purchase plan, the board of directors is entitled to grant to designated directors, officers and employees of the Company or any subsidiary thereof, the right to purchase unissued common shares of the Company. The options are granted at a price not less than the fair value of the shares on the date of the grant. All options granted prior to December 31, 2000 vested immediately upon the grant date.

During 2001, all options granted vest evenly over a period of five years except for 100,000 options granted which vest evenly over three years. 20,000 options expired during the year ended December 31, 2001.

During 2002, all options granted vest evenly over a period of five years except for 50,000 options granted which vest evenly over two years and 30,000 options which vest evenly over four years. 24,000 options expired during the year ended December 31, 2002.

As at December 31, 2002, options outstanding to certain directors, officers and employees for the purchase of common shares were as follows:

Date of Grant	Number	Exercise Price	Expiry Date
January 27, 1999	45,000	\$ 3.50	January 27, 2004
October 26, 1999	135,000	\$ 4.50	October 26, 2004
October 25, 2001	272,000	\$ 3.85	October 25, 2006
November 16, 2001	18,000	\$ 4.16	November 16, 2006
October 24, 2002	216,000	\$ 4.00	October 24, 2007
	<u>686,000</u>		

The Company records no expense when it issues options. Had the Company elected to recognize the cost of its stock-based compensation based on the estimated fair value of stock options granted, the Company's results would have been as follows:

Fair value of options granted in 2002	\$ 71,554
Compensation expense for 2002	\$ 6,898
Pro forma net earnings	\$ 4,633,012

Pro forma basic and fully diluted earnings per common share remain unchanged.

The fair value of stock options granted is estimated using the Black-Scholes option pricing model on the date of grant with the following weighted average assumptions:

Stock price at grant date	\$ 4.00
Exercise price	\$ 4.00
Average life of options (years)	3.6
Expected stock price volatility	20%
Expected dividend yield	7.00%
Risk-free interest rate	3.93%

## 9. OTHER INCOME

	2002	2001
Interest, dividends and other	\$ 437,079	\$ 372,730
Gain on disposal of long-term investments	856,839	1,559,272
Gain on disposal of current investments	588	2,648
Share of loss in equity investment	-	(128,820)
	<u>\$ 1,294,506</u>	<u>\$ 1,805,830</u>

# Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

## 10. INCOME TAXES

(a) The future income tax asset (liability) is comprised of the following temporary differences:

	2002	2001
Capital and other assets	\$ (1,301,188)	\$ (356,783)
Reserves and other temporary differences	551,279	610,580
Income tax losses	-	227,973
	<u>\$ (749,909)</u>	<u>\$ 481,770</u>

(b) The Company has capital losses of approximately \$7,400,000 for income tax purposes which may be carried forward indefinitely to reduce future taxable capital gains. The potential benefit of these capital losses has not been recognized in these financial statements.

(c) The major factors that cause variations from the Company's combined federal and provincial statutory Canadian income tax rates of 38.62% (2001 - 42.12%) were the following:

	2002	2001
Earnings before income taxes	<u>\$ 6,755,490</u>	<u>\$ 6,536,597</u>
Expected income tax expense at statutory rates	\$ 2,608,970	\$ 2,753,215
Increase (decrease) resulting from:		
Non-deductible/non-taxable items	153,139	552,727
Tax rate differential on US operations	17,423	(91,874)
Manufacturing and processing deduction	(280,018)	(369,278)
Non-taxable portion of capital gains	(194,577)	(2,281,652)
Taxes resulting from Dominion Citrus reorganization	-	3,878,811
Capital losses previously unrecognized	(194,577)	(2,281,651)
Other	5,220	32,018
	<u>\$ 2,115,580</u>	<u>\$ 2,192,316</u>

(d) Provision

The details of the income tax provision are as follows:

	2002	2001
Current provision	\$ 837,303	\$ 1,867,677
Future provision	1,278,277	324,639
	<u>\$ 2,115,580</u>	<u>\$ 2,192,316</u>

## 11. CASH FLOW INFORMATION

(a) Items not involving current cash flows

	2002	2001 <i>Restated</i>
Amortization	\$ 3,351,959	\$ 3,546,669
(Gain) loss on disposal of capital assets	(345,865)	213,765
Future income taxes	1,231,679	425,543
Gain on disposal of long-term investments	(856,839)	(1,559,272)
Cancellation of loans receivable	60,183	-
Foreign exchange	(13,050)	290,425
Share of loss in equity investment	-	128,820
Accrued pension cost	166,900	88,700
	<u>\$ 3,594,967</u>	<u>\$ 3,134,650</u>

(b) Net change in non-cash working capital

	2002	2001
Investments	\$ 271	\$ 884,525
Receivables	2,699,638	146,708
Prepaid expenses	(412,719)	(671,108)
Accounts payable and accrued liabilities	1,562,524	(1,822,300)
Income taxes	(1,043,945)	(1,275,857)
	<u>\$ 2,805,769</u>	<u>\$ (2,738,032)</u>

(c) Supplemental information

	2002	2001
Interest paid	\$ 71,388	\$ 624,527
Income taxes paid	\$ 1,881,248	\$ 3,143,534

# Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

## 12. PENSION PLANS

The Company has defined contribution plans in place for the employees of its subsidiaries. Contributions to these plans are based on specified percentages of salaries. During 2001, the Company initiated a defined benefit pension plan for the Company's president. The pension benefit for this plan is based on earnings and years of service.

	2002	2001
Total pension expense is comprised as follows:		
Defined benefit plan		
Service costs (benefits earned during the year)	\$ 67,700	\$ 29,000
Interest costs on accrued benefit obligation	53,700	23,900
Expected return on plan assets	(27,600)	-
Amortization of transitional obligation	71,600	35,800
Amortization of net actuarial loss	1,500	-
	<u>166,900</u>	<u>88,700</u>
Defined contribution plans	639,474	451,395
<b>Total pension expense</b>	<b><u>\$ 806,374</u></b>	<b><u>\$ 540,095</u></b>
Pension fund asset is comprised as follows:		
Market value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	1,577,400	-
Actual return on plan assets	13,100	-
Market value of plan assets at end of year	<u>1,590,500</u>	<u>-</u>
Accrued benefit obligation is comprised as follows:		
Obligation at beginning of year	754,700	-
Past service obligation upon initiation of plan	-	679,800
Service costs (benefits earned during the year)	67,700	29,000
Interest costs on accrued benefit obligation	53,700	23,900
Actuarial loss on accrued benefit obligation	36,000	22,000
Accumulated benefit obligation at the end of the year	<u>912,100</u>	<u>754,700</u>
Funded status at end of year	678,400	(754,700)
Items not recognized in earnings:		
Unrealized transitional obligation	572,400	644,000
Unrecognized actuarial losses	71,000	22,000
<b>Pension fund asset (liability)</b>	<b><u>\$ 1,321,800</u></b>	<b><u>\$ (88,700)</u></b>

An actuarial valuation was performed in December 2002. The significant actuarial assumptions used for the valuation of the Corporation's accrued benefit obligation and pension expense for the year are as follows: Discount rate - 6.0%, an assumed rate of salary escalation of 4%, an estimated remaining service lifetime of 8 years and an expected rate of return on plan assets of 7% per annum for the next 5 years and 8% thereafter.

## 13. CONTINGENCIES AND COMMITMENTS

### (a) Operating Leases

The future minimum lease commitments under operating leases are:

2003	\$ 3,277,708
2004	1,422,637
2005	1,283,411
2006	1,121,981
2007	1,072,159
Thereafter	4,842,638
	<u>\$ 13,020,534</u>

### (b) General

In the ordinary course of business activities, the Company is a plaintiff and has been named as defendant in certain litigation and other claims. Management believes that the resolution of such litigation and claims will not have a material adverse effect on the consolidated position of the Company.

## 14. SEGMENTED INFORMATION

### Geographic Information

	2002		2001	
	Sales	Capital Assets and Goodwill	Sales	Capital Assets and Goodwill
Canada	\$ 41,062,640	\$ 14,472,288	\$ 37,414,835	\$ 15,092,741
United States	14,856,369	1,605,148	15,519,063	1,983,299
	<u>\$ 55,919,009</u>	<u>\$ 16,077,436</u>	<u>\$ 52,933,898</u>	<u>\$ 17,076,040</u>

# Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

## 15. SUBSEQUENT EVENT

On January 10, 2003, a subsidiary of the Company entered into an agreement to acquire 100% of the issued and outstanding shares of Tec-Mar Distribution Services, Inc. ("Tec-Mar") located in Michigan. The transaction closed January 31, 2003. The purchase will be accounted for using the purchase method with results of operations consolidated from February 1, 2003 onwards.

The purchase price was USD\$24,278,695 (CDN\$38,302,069) which was based upon USD\$18,000,000 plus the excess of adjusted working capital over USD\$6,400,000, which was USD\$6,278,695 and is subject to post-closing adjustments. The purchase price will be increased by 50% of any Tec-Mar EBITDA (as defined in the agreement) that exceeds USD\$4,500,000 in each of the four years from 2003 through 2006 inclusive. If Tec-Mar EBITDA falls below USD\$4,500,000 in any year such deficit will be deducted from the next year EBITDA.

The following pro-forma information reflects the results of the acquisition as though the transaction occurred on January 1, 2002 for income statement purposes and December 31, 2002 for balance sheet purposes.

## BALANCE SHEET

	Automodular Corporation (000's)	Unaudited Tec-Mar (000's)	Adjustments (000's)	Combined (000's)
Current assets	\$ 24,484	\$ 23,460	\$ (21,006)	\$ 26,938
Long-term investments	283	-	-	283
Capital assets	6,663	4,732	-	11,395
Other assets	13,652	-	15,483	29,135
	<u>\$ 45,082</u>	<u>\$ 28,192</u>	<u>\$ (5,523)</u>	<u>\$ 67,751</u>
Current liabilities	\$ 5,812	\$ 4,604	\$ 3,500	\$ 13,916
Long-term debt	-	-	14,000	14,000
Notes payable	-	303	-	303
Future income taxes	750	262	-	1,012
Shareholders' equity	38,520	23,023	(23,023)	38,520
	<u>\$ 45,082</u>	<u>\$ 28,192</u>	<u>\$ (5,523)</u>	<u>\$ 67,751</u>

The purchase price was paid in cash on closing and was funded by a CDN\$17,500,000 non-revolving term credit facility, a US\$5,000,000 (CDN\$7,888,000) bridge credit facility and cash of CDN\$12,914,069. The non-revolving term credit facility bears interest at the bank's prime rate plus 0.75%. It is repayable in quarterly principal payments of CDN\$875,000 with a final payment of CDN\$7,875,000 due on September 30, 2005. The Company also has available to it a revolving term credit facility of CDN\$5,000,000 which bears interest at the bank's prime rate plus 0.75%. This facility replaces the CDN\$2,000,000 facility described in Note 6.

The adjustments above reflect the impact of the acquisition on the Company's consolidated financial statements. An outside party has been retained to analyze the purchase price excess and identify and quantify the breakdown between intangible assets and goodwill. Any intangible assets with a fixed lifetime will be amortized over the period of future benefit. No provision for such amortization has been recorded in the pro-forma income statement since the amount cannot be estimated at this time.

## INCOME STATEMENT

	Automodular Corporation (000's)	Unaudited Tec-Mar (000's)	Adjustments (000's)	Combined (000's)
Sales	\$ 55,919	\$ 63,776	\$ -	\$ 119,695
Cost of sales and other expenses	47,064	58,164	-	105,228
Earnings from operations before the following	8,855	5,612	-	14,467
Amortization	3,352	1,154	-	4,506
Interest expense	42	135	800	977
Other income	(1,294)	(349)	303	(1,340)
	<u>2,100</u>	<u>940</u>	<u>1,103</u>	<u>4,143</u>
Earnings before income taxes	6,755	4,672	(1,103)	10,324
Income taxes	2,115	2,080	(397)	3,798
Net earnings for the year	<u>\$ 4,640</u>	<u>\$ 2,592</u>	<u>\$ (706)</u>	<u>\$ 6,526</u>

# Investor Information

Years ended December 31, 2002 and 2001

## COMPARATIVE DATA

	Dec. 31 2002	Dec. 31 2001	Dec. 31 2000	Dec. 31 1999	Dec. 31 1998
<b>Operations (\$000's)</b>					
Sales	55,919	52,934	49,698	39,604	61,081
Earnings from continuing operations	4,640	4,344	2,105	5,019	(11,984)
Net earnings	4,640	4,344	3,431	5,711	(10,188)
Cash flow from operations	11,041	4,741	9,063	3,202	(708)
<b>Financial (\$000's)</b>					
Total assets	45,082	48,111	38,351	37,021	32,022
Long-term debt	0	1,991	4,874	3,500	10,096
Retained earnings (deficit) (end of year)	(1,093)	(460)	1,928	3,660	(7,885)
Shareholders' equity	38,520	38,689	18,709	20,440	15,394
Return on average shareholders' equity (%)	12.0	15.1	17.5	31.9	-
<b>Per share (\$)</b>					
Earnings before discontinued operations	0.25	0.29	0.20	0.50	(1.25)
Net earnings	0.25	0.29	0.32	0.57	(1.06)
Weighted average number of shares outstanding (000's)	18,829	14,883	10,606	10,009	9,619

## QUARTERLY DATA

	2002				2001 (Restated)			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales (\$000's)	14,485	13,574	14,236	13,624	14,022	12,461	13,220	13,231
Depreciation and amortization	808	855	843	846	836	910	911	890
Net earnings	434	1,296	1,201	1,709	1,199	1,396	914	835

## COMMON SHARE PRICES

Calendar year	The Toronto Stock Exchange		
	High \$	Low \$	Volume (000's)
<b>2002</b>			
Fourth Quarter	4.50	3.80	175
Third Quarter	5.00	3.90	263
Second Quarter	5.73	4.80	288
First Quarter	5.26	3.85	581
<b>2001</b>			
Fourth Quarter	4.35	3.10	624
Third Quarter	4.45	3.50	370
Second Quarter	4.95	3.00	462
First Quarter	4.00	2.90	36

## DIVIDENDS

The Board of Directors has approved a dividend policy whereby the Corporation pays regular quarterly dividends at a rate of \$0.07 per common share. The quarterly rate of dividends will be reviewed annually.

## INVESTOR RELATIONS

Institutional investors, brokers, security analysts and others desiring financial information about Automodular should contact:

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