

Management's Discussion and Analysis

Sales and Net Income

Algonquin Mercantile Corporation ("Algonquin Mercantile") net sales for the year ended December 31, 2000 were \$49,698,076, an increase of \$10,093,786 or 25% from the year ended December 31, 1999. Earnings after discontinued operations were \$3,430,967 or \$0.32 per share.

Interest Expense

Interest expense of \$801,435 was incurred for the current fiscal period. In the prior period, interest expense was \$936,316 which reflected acquisition liabilities as well as the cost of current operating bank lines. In both periods, interest income generated from short-term investments is recorded as Other Income.

Liquidity and Capital Resources

Cash was provided from operating activities of \$9,063,253 for the current fiscal period compared to cash provided of \$3,202,016 in the prior period.

Capital Expansion

In the current period, the Company expended \$1,477,328 on capital and other assets, versus \$7,806,281 in the prior period. The majority of the capital in the prior period was used to bring into production Automodular's 253,000 sq. ft. of manufacturing space in New Castle, Delaware.

Debt

At December 31, 2000, Algonquin's net cash position (temporary investments and marketable securities less short-term bank advances) was \$4.1 million compared to net cash of \$1.8 million for December 31, 1999.

Dividends

Dividends paid in the current year were \$3,177,160 compared with \$4,019,546 in the prior period. As an ongoing practice, Algonquin will continue to review funds available for payment of dividends on a regular basis, but will pay dividends to shareholders only when funds that are clearly surplus to the funds required for expansion are available to do so.

Equity

Shareholders' equity decreased to \$18,708,717 from \$20,440,324 reflecting the \$1,985,414 property dividend of the Dominion Citrus shares declared December 22, 2000. In May 1999, the Company's shareholders approved a reduction in the stated capital of the outstanding shares of the Company by \$9,853,053 with a corresponding reduction of the deficit which represented the difference between the stated capital of the shares of \$23,279,423 at December 31, 1998 and their paid-up capital amount for tax purposes of \$13,426,370.

Outlook

The Company's balance sheet reflects management's judgment on the valuation of the assets, and management feels the Company is poised for further growth through expansion of its automotive parts sequencing operations and other opportunistic acquisitions in the automotive sector. The capital requirements for any expansion will be met initially through internally generated funds and selectively through issuance of additional shares.