

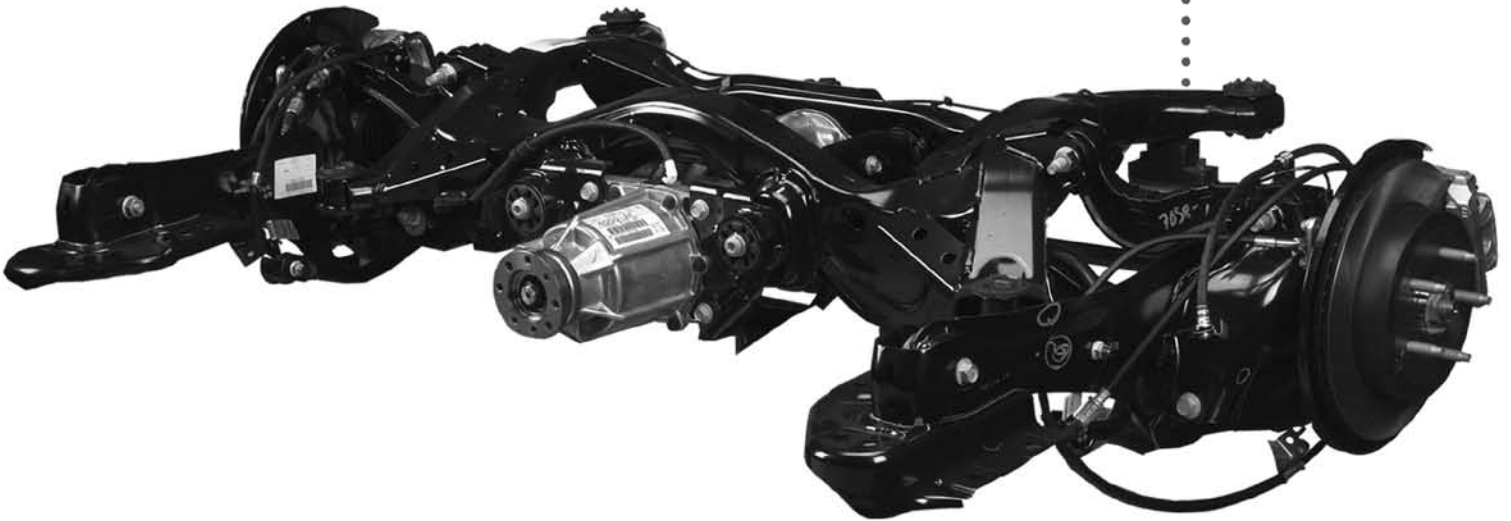


**AUTOMODULAR CORPORATION**  
2006 ANNUAL REPORT





**AUTOMODULAR CORPORATION**  
2 0 0 6 A N N U A L R E P O R T



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## Financial Highlights

	Year ended December 31, 2006 (000s)	Year ended December 31, 2005 (000s)
Sales	\$ 57,885	\$79,210
Earnings before income taxes	2,036	11,856
Net earnings	1,527	11,042
Net earnings per share	0.07	0.54
Total assets	57,400	51,328
Shareholders' equity	35,812	34,864

## To the Shareholders



2006 was a year of transition for Automodular Corporation (“Automodular” or the “Company”). During the year, the Company closed its Pontiac, Michigan sequencing operation and announced that it would close its Lansing, Michigan sequencing facility in July 2007, completing its exit from this low value-added activity. In October 2006, Automodular opened a new 260,000 square foot facility in Oakville to produce complex sub-assemblies. Automodular anticipates rapid and profitable growth in complex sub-assembly work as automobile manufacturers accelerate their outsourcing activities.



2007 should be a strong year for Automodular as it reaps the benefits of investments it has made in Oshawa and Oakville. The automotive industry is volatile and Automodular does not make public forecasts or projections, since they would be inherently unreliable. However, given the magnitude of the expected improvements in Automodular’s business in 2007, Automodular’s board has decided to release the budget targets it has given management for the year.



For 2007, Automodular has budgeted sales of \$100 million and net income of \$6 million. A new incentive compensation system, designed in 2006, ties senior management compensation to the achievement of this level of profitability. While actual financial results may vary, management believes these targets are achievable and reasonable, and has committed to be measured and compensated against their achievement.



Looking ahead, Automodular anticipates several years of growth. During 2007, the Company plans to open a new facility in Oakville expanding its sub-assembly operations in that location. Automodular has quoted additional complex sub-assembly work in Oshawa and in the United States which, if Automodular is a successful bidder, will pave the way for expansions in 2008 and 2009.

On behalf of the directors

*“Michael F. Blair”*

President and Chief Executive Officer



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

The following MD&A of our consolidated operating results and financial position is for the years ended December 31, 2006 and 2005 and should be read in conjunction with the accompanying audited consolidated financial statements and notes thereto. The MD&A provides an update on financial and non-financial developments during the past year.

### BASIS OF PRESENTATION

We are a Canadian-based company and our accounting policies are in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar amounts are in Canadian dollars unless otherwise indicated. Unless the content otherwise indicates, references to "Automodular" or to the "Company" refer to Automodular Corporation and its direct and indirect subsidiaries.

### COMPANY AND INDUSTRY OVERVIEW

Automodular is a sequencer and sub-assembler of modules that are installed in cars and trucks assembled by North American Original Equipment Manufacturers ("OEMs") at plants in Canada and the United States. By sequencing, we mean that we deliver the sub-assembled modules, such as an instrument panel or a radiator support, to the final assembly plant in precisely the sequence of their final installation in the vehicle, and at precisely the time they are to be installed.

All of our business is contract business. We are asked to bid on contracts by Tier 1 suppliers or by the OEMs directly. These contracts are bid on and awarded prior to the launch of the vehicle and are typically for periods from three to five years, although some of our current contracts are for as long as eight years. From the moment the first vehicle goes down the assembly line until the last one, our Company ships components for each vehicle being assembled. We receive orders every five seconds and ship completed assemblies typically within two hours of receiving the respective orders. Given the tight timeline, each plant is generally located within 20 km of the final assembly plant which it serves. We are an integral part of the supply chain and fundamental to the cost-efficient final assembly of vehicles.

Our success is based on our ability to deliver defect-free modules to the final assembly plant on time, every time, at a cost that makes it more profitable for our customers to use our services rather than either doing the work themselves or awarding the business to one of our competitors.

The demand for our services has greatly increased over the past two years. OEMs are taking advantage of employees accepting buyouts, which enable the OEMs to transition business to suppliers and lower their cost per vehicle. The optimal time to transition sub-assembly work is when new programs are launching. There are many new vehicle launches anticipated over the next three to five years as North American OEMs respond to consumer pressure demanding they introduce new vehicles to the market.





The sequencing and sub-assembly industry is extremely competitive. There is continued pressure from customers for cost reductions through re-quoting of existing contracts.

The Company recognizes that it is difficult to compete on some of the less complex sequencing work when bidding against significantly larger competitors who are able to bring economies of scale to bear. Automodular is focusing more of its business development efforts on more complex sub-assembly services which contain a higher value-added element.

In 2005, for the first time in the Company's history, Automodular was awarded contracts from an OEM other than General Motors Corporation and General Motors of Canada Limited (collectively "GM"). Ford Motor Company of Canada, Limited ("Ford") awarded two major contracts to the Company to supply sequenced power train, suspension and instrument panel sub-assemblies for the new Ford Edge and Lincoln MKX programs for the reconfigured Ford flexible assembly complex located in Oakville, Ontario. The Company continues to seek to generate new business with other OEMs in order to further diversify its customer base.

At present, we employ in excess of 900 people in six operating facilities servicing five GM assembly plants and one Ford assembly plant. We operated approximately 1.1 million square feet of plant space and provided sequencing and sub-assembly services for 1.3 million vehicles in 2006.

Our operating mission statement is *"to be the world class assembler and sequencing operation to the automotive manufacturers"*. We strive to meet or exceed our customers' expectations and be competitive through continuous improvement. Our goal is zero defects.

Our core values reflect our commitment to this mission statement. They include the following:

- Highest quality in all aspects of our business
- Teamwork
- Commitment to customer satisfaction
- Respect for the individual
- Continuous improvement
- Long-term growth and profitability.

The Company currently provides services for the following platforms:

Truck plants	Oshawa, ON	Chevrolet Silverado GMC Sierra
Car plants	Oshawa, ON	Chevrolet Impala Chevrolet Monte Carlo Pontiac Grand Prix Buick Allure Buick Lacrosse
	Lansing, MI	Cadillac CTS Cadillac SRX Cadillac STS
	Lordstown, OH	Chevrolet Cobalt Pontiac G5
	Oakville, ON	Ford Edge Lincoln MKX

## INDUSTRY RISKS

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

### Industry risk

The automotive industry is cyclical and influenced by various economic and political factors including interest rates, consumer demand and international conflicts.

During 2005 and 2006 several automotive suppliers were forced to undergo restructuring either through Chapter 11 in the United States or receivership in Canada. These situations may impact the Company in two ways: first, the Company may be exposed to credit risk for those contracts with the Tier 1 suppliers; second, such filings create a level of unease in the lending community which makes it more difficult for the Company to finance the capital and pre-production costs of new contract awards.

### Program risk

Earnings may be adversely impacted by poor consumer demand for vehicles for which the Company provides services which may result in unplanned downtime. We earn revenues primarily based on a variable piece price and many of our costs are fixed in nature. The Company felt the effect of this over the past two years in Pontiac and Lordstown where operations were cut back from three to two shifts. Oshawa and Lansing operations also faced unplanned downtime and the de-rating of production lines to slower speeds.

### Pricing pressures

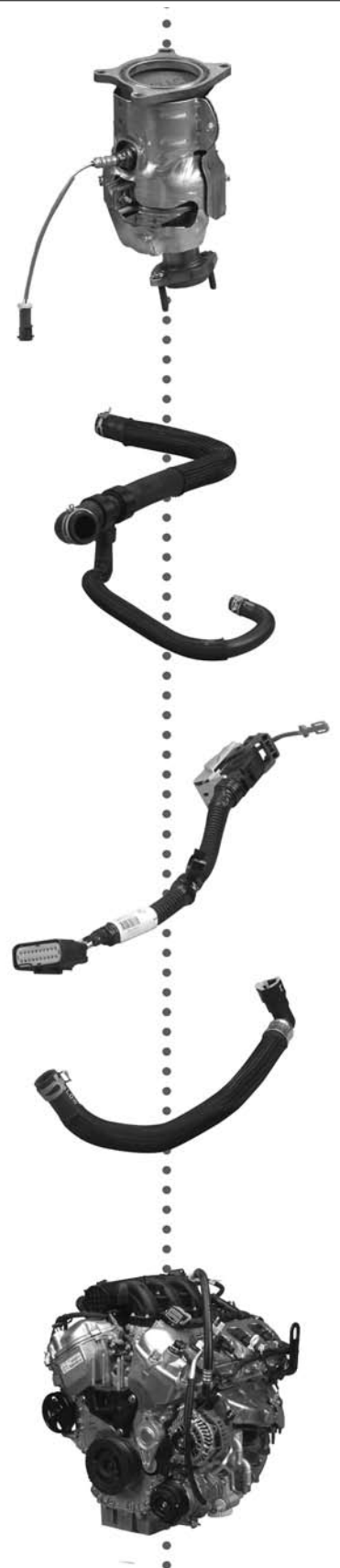
As discussed previously, the Company enters into long-term contracts with its customers. The contracts often contain price concessions over the contract term. The goal is to reduce or eliminate this erosion of profitability by cost reductions realized through continuous improvement programs.

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.

## 2006 OVERVIEW

2006 was a year of transition for the Company. Automodular's sequencing business in Michigan was further rationalized as its Pontiac facility was closed mid-year. In addition, the Company had two significant program launches in Oakville and Oshawa that ramped up in the second half of 2006. These programs are expected to contribute significantly to earnings in 2007 and beyond.

Sales decreased from \$79.2 million in 2005 to \$57.9 million in 2006 and resulted in a net income for the year of \$1.5 million or \$0.07 per share compared to a net income of \$11.0 million or \$0.54 per share in 2005.



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Included in net earnings for 2005 were three non-recurring items:

- An agreement was reached on certain outstanding litigation whereby the Company received pre-tax \$11 million, \$10.5 million on an after-tax basis.
- Automodular sold a surplus facility for \$2.5 million and recorded a gain of \$0.9 million on an after-tax basis.
- The Company negotiated an agreement to settle its remaining lease obligations on a redundant facility in Lansing, Michigan. Combined with other severance costs, the Company recorded a pre-tax charge of \$2.3 million against earnings, \$1.5 million on an after-tax basis.

Accomplishments in 2006 included the following:

- The Company took occupancy of, fully equipped and staffed its new 260,000 square foot facility in Oakville to provide complex sub-assembly services for Ford's Oakville car assembly plant. Production commenced in the fourth quarter of 2006 with commercial production levels achieved in the first quarter of 2007.
- To finance capital expenditures in its new Oakville facility, the Company signed a \$6 million equipment financing agreement during the first quarter of 2006. The facility was fully drawn in the third quarter and is to be repaid over a six-year term at an interest rate of approximately 8%.
- The Company negotiated a union contract for employees employed by its Oakville-based operations. An initial three-year contract was reached with the National Automobile, Aerospace, Transportation and General Workers of Canada ("CAW").
- Automodular's Oshawa operations successfully completed the launch of the new GM truck program at the end of the third quarter, with full production levels reached by the end of the year.

Challenges in 2006 included the following:

- During the first quarter, the Company was informed by General Motors Corporation that it was unsuccessful in its bid to expand its Pontiac, Michigan operations, and in accordance with the terms of the bid, ceased to operate in Pontiac at the end of the second quarter. The results include a non-recurring charge of approximately \$0.9 million (US\$0.7 million) with respect to severance, benefit and other exit costs relating to the closure of this facility. Offsetting these costs, the Company recognized a gain of \$0.9 million (US\$0.7 million) on the sale of redundant Michigan-based assets.
- Automodular also reduced its Ohio operations from a three-shift operation to a two-shift operation as a result of the elimination of one shift of production at GM's Ohio car assembly plant during the third quarter.

## RESULTS OF OPERATIONS

The Company's comparative consolidated operating results for the years ended December 31, 2006 and 2005 are as follows:

<b>(all numbers in thousands)</b>	<b>2006 % of sales</b>		<b>2005 % of sales</b>	
<b>Sales</b>	\$ 57,885	100.0%	\$ 79,210	100.0%
<b>Cost of goods sold and other expenses</b>	54,146	93.5%	74,220	93.7%
<b>Exit costs</b>	919	1.6%	2,303	2.9%
<b>Earnings before the following:</b>	2,820	4.9%	2,687	3.4%
Amortization	2,119	3.7%	2,854	3.6%
Interest expense	(119)	-0.2%	408	0.5%
Foreign exchange	(332)	-0.6%	(278)	-0.4%
Other income	(884)	-1.5%	(12,153)	-15.3%
	784	1.4%	(9,169)	-11.6%
<b>Earnings before income taxes</b>	2,036	3.5%	11,856	15.0%
<b>Income taxes</b>	509	0.9%	814	1.0%
<b>Net earnings for the year</b>	\$ 1,527	2.6%	\$ 11,042	14.0%

### Sales

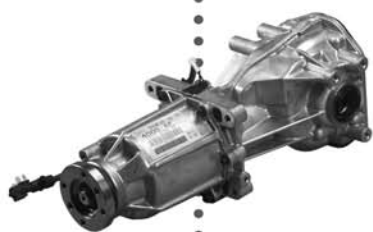
Automodular's sales decreased from \$79.2 million in 2005 to \$57.9 million in 2006.

Canadian operations – Sales increased to \$39.5 million from \$35.1 million as a result of increased production volumes in the Oshawa car operations. Although the Oakville operations commenced production in Q4 2006, commercial production levels were not reached and revenues and expenses during 2006 were recorded as pre-production expenditures. Accordingly, the revenue figure above excludes any Oakville sales.

US operations – Michigan-based revenues in 2006 were US\$11.8 million (CDN \$13.4 million) which represented a decrease of US\$18.7 million compared to 2005 as a result of the reduction in Lansing, Michigan car operations and the loss of Pontiac, Michigan truck operations. Revenues from Ohio-based operations were slightly lower in 2006, with revenues of US \$4.4 million (CDN \$5.0 million) versus US\$4.8 million (CDN \$5.8 million) in 2005.

### Earnings Before Interest, Taxes, Amortization and Other Non-cash Items ("EBITDA")

EBITDA is used as a key financial measurement when evaluating operating performance and is a measure of cash operating earnings that is widely used in the automotive industry. The Company defines the metric as "Earnings before interest, taxes, depreciation and



amortization and non-cash items". *It is not a defined term under Canadian GAAP* and is, therefore, unlikely to be comparable to similar measures presented by other companies.

EBITDA increased \$0.1 million from \$2.7 million to \$2.8 million in 2006.

Canadian operations – EBITDA was \$0.7 million higher than 2005 as a result of the renewal of truck operations contracts and reduced downtime in car operations.

US operations – EBITDA was US\$0.5 million (CDN \$0.6 million) lower than 2005 as a result of the mid-year closure of Pontiac operations and the transition of most of the Lansing business to a competitor in 2005.

### Amortization

Amortization decreased \$0.7 million compared to 2005 primarily as a result of the disposal and write-off of the Company's assets in its Michigan operations in 2005 in Lansing and in 2006 in Pontiac.

### Interest

Interest income (net) in 2006 was \$0.1 million, compared to interest expense (net) of \$0.4 million in 2005. The change in the net interest was due to interest earned on higher cash balances in the first half of the year as a result of the 2005 \$11 million legal settlement and the capitalization of amounts relating to the Oakville program during its pre-production phase.

### Foreign Exchange

The Company recognized a foreign exchange gain of \$0.3 million in the current year, which is consistent with the gain realized in 2005.

### Other Income

Other income decreased from 2005 by \$11.3 million. During 2006, Automodular recognized a gain of approximately \$0.9 million (US\$0.7 million) on the sale of redundant equipment and fleet assets in its Michigan-based operations. During 2005, the Company reached an agreement to settle outstanding litigation for payment to Automodular of \$11 million.

### Income Taxes

A comparison of effective tax rates from year to year is not meaningful. In 2005, the majority of the gain on the settlement of outstanding litigation was not taxable. In 2006, the effective corporate tax rate declined due to the decrease in future statutory rates. See Note 12 of the financial statements for further details.

## HISTORICAL ANNUAL DATA

(all numbers in thousands except per share amounts)

	2006	2005	2004
Sales	\$ 57,885	\$ 79,210	\$ 93,537
Net earnings (loss)	\$ 1,527	\$ 11,042	\$ (10,445)
Earnings per share			
Basic	\$ 0.07	\$ 0.54	\$ (0.55)
Diluted	\$ 0.07	\$ 0.54	\$ (0.55)
Total assets	\$ 57,400	\$ 51,328	\$ 36,039
Total long-term liabilities	\$ 4,812	\$ 2,502	\$ 2,502
Cash dividends per share	\$ -	\$ -	\$ -

The variances between 2006 and 2005 have been previously discussed.

## 2005 versus 2004 results

The decrease in sales between 2005 and 2004 was a result of the non-extension of certain contracts with Oshawa car plant operations as well as overall lower production volumes in our Canadian operations, combined with the transition of a portion of the Company's Lansing, Michigan operations to a competitor and the elimination of the third shift in our Pontiac, Michigan truck operations.

Net earnings increased significantly in 2005 as the Company reached an agreement to settle outstanding litigation for payment to Automodular of \$11 million. In 2004, The Company recorded the write-off of goodwill and intangible assets relating to the Company's Michigan operations.

Total assets increased by approximately \$15.6 million primarily due to the receipt of the \$11 million settlement proceeds referred to above and the capitalization of costs incurred in relation to the new Oakville business award.

## HISTORICAL QUARTERLY DATA – ROLLING EIGHT QUARTERS

(all numbers in thousands except per share amounts)

	2006				2005			
	Q1	Q2	Q3	Q4	Q1*	Q2*	Q3	Q4
Sales	\$17,890	\$17,133	\$10,206	\$12,656	\$19,306	\$19,564	\$20,680	\$19,660
Net earnings (loss)	\$577	\$591	\$199	\$160	\$(340)	\$1,436	\$644	\$9,302
Per share								
(basic and diluted)	\$0.03	\$0.03	\$0.01	\$0.00	\$(0.02)	\$0.07	\$0.03	\$0.46

\*restated

The first and second quarter figures for 2005 were restated to reflect a change in timing of the realization of a gain on the sale of surplus real estate of \$0.9 million after-tax from the first quarter to the second quarter of 2005. The fourth quarter of 2005 included a gain on the litigation settlement of \$10.5 million after-tax.

### Fourth Quarter 2006

Fourth quarter operations resulted in a small profit as noted above. The majority of Automodular's operations were in launch mode during the quarter. This included both the Oakville operations and the Oshawa truck operations.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities

(all numbers in thousands)

	2006	2005
Net earnings	\$ 1,527	\$ 11,042
Non-cash items	1,160	1,640
Non-cash working capital	(1,867)	1,836
Cash from operations	\$ 820	\$ 14,518

The decrease in cash from operations is due primarily to the gain on the lawsuit settlement received in 2005.



**Investing Activities**  
(all numbers in thousands)

	2006	2005
Purchase of PP&E and other assets (net)	\$ (18,888)	\$ (3,764)

Net purchases of property, plant and equipment and other assets (purchases less proceeds on dispositions) increased by \$15.1 million primarily as a result of the launch of Automodular's new Oakville operations, partially offset by the proceeds received on the sale of the redundant assets in Pontiac, Michigan.

**Financing Activities**  
(all numbers in thousands)

	2006	2005
Issue of common shares	\$ -	\$ 2,180
Bank indebtedness	4,919	-
Proceeds from new financing facility	6,000	-
Repayment of long-term liabilities	(3,095)	(3,442)
Cash from financing activities	\$ 7,824	\$ (1,262)

During the prior year, the Company completed a rights offering to partially finance the capital requirements of certain new contracts. In 2006, the Company signed and fully drew on its new \$6 million equipment financing agreement to finance capital expenditures related to its new Oakville facility.

**Unused And Available Financing Resources**

Automodular's bank indebtedness on a book basis at year-end totaled \$4.9 million compared to cash and cash equivalents on hand at the end of 2005 of \$10.3 million. The Company has available to it an \$8 million operating line. At December 31, 2006, the Company had drawn \$3.5 million, which excludes all outstanding cheques.

**Off Balance Sheet Financing**

The Company's off balance sheet financing includes operating lease commitments. Total commitments for 2007 and beyond as disclosed in Note 16 of the consolidated financial statements are \$33.3 million.

**Financial Instruments**

The Company is committed to an interest rate swap agreement on the majority of its US dollar denominated debt which expires December, 2007. The agreement subjects the Company to a fixed rate of 8.7% and the counterparty to a floating three-month US dollar LIBOR rate.

The Company does not enter into foreign exchange contracts for speculative purposes.

**Contractual Obligations Due By Year**  
(all numbers in thousands)

	2009	2008	2009	2010	2011	Thereafter
Long-term debt	\$ 3,507	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 668
Capital leases	\$ 260	\$ 113	\$ 29	\$ 2	\$ -	\$ -
Operating leases	\$ 5,232	\$ 4,414	\$ 4,289	\$ 3,693	\$ 3,520	\$ 12,148
	\$ 8,999	\$ 5,527	\$ 5,318	\$ 4,695	\$ 4,520	\$ 12,816

## Shareholders' Equity

Shareholders' equity increased from \$34.9 million to \$35.8 million.

Included as a separate component of shareholders' equity is a cumulative translation loss of \$6.1 million. This loss results from the increased strength of the Canadian dollar against the US dollar (since the date the Company's Michigan-based operations were acquired) when translating the Company's Michigan-based operations to Canadian dollars. This loss has been partially offset by a gain on the US dollar portion of the financing. Automodular will continue to be affected by changes in the Canadian dollar.

## Outstanding Share Data

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

	December 31, 2006		December 31, 2005	
	# Outstanding	Dollars	# Outstanding	Dollars
Common shares	22,049,233	\$ 42,566	22,049,233	\$ 42,566

At year-end, 249,500 options to purchase common shares of the Company were outstanding.

As at March 30, 2007, there has been no change in the number of outstanding shares or options to purchase common shares.

## Related Party Transactions

The Company paid rent to two companies controlled by a former member of the Board of Directors, until such time as the Director resigned, totaling \$1,155 (US \$1,018). The director resigned in September, 2005. These transactions were conducted in the normal course of business and were accounted for at the exchange amount.

In July, 2006, the Corporation completed a secured \$6 million financing with Roynat Inc., a wholly-owned subsidiary of The Bank of Nova Scotia which also owns 100% of Scotia Merchant Capital Corporation ("SMCC"). SMCC exercises control or direction over 39.9% of the issued and outstanding common shares of the Corporation. Andrew Brenton and Garth Davis, directors of the Corporation, are the Managing Partner and a Partner, respectively, of SMCC. Each of Mr. Brenton and Mr. Davis declared their interest in the transaction and refrained from voting on the matter. The financing was used for the purchase of capital assets required for the Corporation's new program for Ford Motor Company of Canada Limited in Oakville, Ontario. This credit facility is to be repaid over a six-year term at an interest rate of approximately 8% per annum. Roynat Inc. earned customary banking fees in relation to this transaction.



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## OUTLOOK

During 2006, managerial and financial resources were focused on the launch of the new truck program in Oshawa and the new car program in Oakville. Oshawa truck operations entered into the year at full production levels and Oakville car operations are expected to reach full production levels at the beginning of the second quarter of 2007.

Ohio operations received a setback in 2006 with the elimination of the third shift of production. However, operations continue to run effectively and there is a strong management team in place.

Michigan operations continued to shrink in 2006 as Automodular continued its shift away from less complex assembly and sequencing work. The remaining business in Lansing is expected to transition to a competitor in the third quarter of 2007 and the facility will be closed.

2007 should be a strong year for Automodular as it reaps the benefits of investments it has made in Oshawa and Oakville. The automotive industry is volatile and Automodular does not make public forecasts or projections, since they would be inherently unreliable. However, given the magnitude of the expected improvements in Automodular's business in 2007, Automodular's board has decided to release the budget targets it has given management for the year.

For 2007, Automodular has budgeted sales of \$100 million and net income of \$6 million. A new incentive compensation system, designed in 2006, ties senior management compensation to the achievement of this level of profitability. While actual financial results may vary, management believes these targets are achievable and reasonable, and has committed to be measured and compensated against their achievement. Automodular has quoted additional complex sub-assembly work in Canada and the United States and if successful in bidding will have new program launches in 2008 and 2009 that would require additional funding.

## ACCOUNTING POLICY

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.

### Critical Accounting Policy

The Company believes that the following accounting policy is critical because it involves significant judgment and the use of estimates.

### 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.

The Company evaluated the \$9.4 million carrying value of goodwill relating to its Canadian operations and concluded that no write-down is required.

### Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure controls and procedures have been designed to ensure that relevant and accurate information needed to comply with the Company's continuous disclosure obligations is accumulated and summarized to allow timely decisions regarding disclosure and to ensure that the risk of material error or fraud is minimal. Management has concluded that the Company's disclosure controls and procedures, as at the end of the period covered by the annual filings, are effective in ensuring that material information is accumulated and disclosed accurately.

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Management believes that “cost-effective” disclosure controls, disclosure procedures and internal control systems can only provide reasonable assurance, and not absolute assurance, that the objectives of the controls and procedures are met.

Internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of the Company’s financial reporting and its preparation of consolidated financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

#### **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 estimates, 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, General Motors of Canada Limited and Ford Motor Company of Canada, Limited; new program launch risks and other changes in the business environment in which we operate. Persons reading this Information Circular are cautioned that forward-looking statements are only estimates and that our actual future results or performance may be materially different due to inherent risks and uncertainties surrounding future expectations, assumptions not being realized, changes in facts or other unforeseen circumstances. Except as required by continuous disclosure obligations, 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 on the SEDAR website at [www.sedar.com](http://www.sedar.com)

March 30, 2007

## Management's Responsibility For Financial Information

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The accompanying consolidated financial statements and all information contained in this report were prepared by and are the responsibility of management. The statements were prepared in accordance with Canadian generally accepted accounting principles and include management's best judgments and estimates. Where alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial information presented elsewhere in this report is consistent with that in the financial statements.

The company maintains a system of internal controls which provides management with reasonable assurance that financial information is relevant, reliable and accurate and that the company's assets are properly accounted for and adequately safeguarded.

The consolidated financial statements have been audited by the independent external auditors appointed by the shareholders PricewaterhouseCoopers LLP. In that capacity, they have examined and reported on the consolidated financial statements for the year ended December 31, 2006. The financial statements as at December 31, 2005 and for the year then ended were audited by other chartered accountants who expressed an opinion without reservation on those statements in their report dated March 8, 2006. The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors and has recommended their approval by the Board of Directors.

*"Michael F. Blair"*  
Chief Executive Officer

*"Christopher S. Nutt"*  
Chief Financial Officer

Toronto, Ontario  
March 30, 2007

## Auditors' Report

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### TO THE SHAREHOLDERS OF AUTOMODULAR CORPORATION

We have audited the consolidated balance sheet of **Automodular Corporation** as at December 31, 2006 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2005 and for the year then ended were audited by other chartered accountants who expressed an opinion without reservation on those statements in their report dated March 8, 2006.

*PricewaterhouseCoopers LLP*

Chartered Accountants

Toronto, Ontario

March 30, 2007

# Consolidated Balance Sheets

as at December 31, 2006 and 2005  
(all numbers in thousands)

	2006	2005
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ -	\$ 10,257
Receivables (Note 3)	14,767	16,213
Inventory	95	117
Income taxes receivable	225	-
Prepaid expenses	3,702	4,440
	18,789	31,027
<b>Property, plant and equipment (Note 4)</b>	17,270	7,840
<b>Goodwill</b>	9,414	9,414
<b>Other assets (Note 5)</b>	11,927	3,047
	\$ 57,400	\$ 51,328
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Bank indebtedness (Note 7)	\$ 4,919	\$ -
Accounts payable and accrued liabilities	8,003	9,271
Income taxes payable	-	206
Advanced tooling payment (Note 6)	-	2,026
Current portion of long-term liabilities (Note 8)	3,767	2,450
	16,689	13,953
<b>Future income taxes (Note 12)</b>	87	9
<b>Long-term liabilities (Note 8)</b>	4,812	2,502
	21,588	16,464
<b>Contingencies and Commitments (Note 16)</b>	-	-
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital stock (Note 9)</b>	42,566	42,566
<b>Contributed surplus</b>	88	82
<b>Cumulative translation adjustment</b>	(6,118)	(5,533)
<b>Deficit</b>	(724)	(2,251)
	35,812	34,864
	\$ 57,400	\$ 51,328

Signed on behalf of the Board

"Michael F. Blair"

Director

"R. Peter McLaughlin"

Director

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

## Consolidated Statements of Deficit

for the years ended December 31, 2006 and 2005  
(all numbers in thousands)

	<b>2006</b>	<b>2005</b>
<b>BALANCE - BEGINNING OF YEAR</b>	\$ (2,251)	\$ (13,293)
Net earnings for the year	1,527	11,042
<b>BALANCE - END OF YEAR</b>	<b>\$ (724)</b>	<b>\$ (2,251)</b>

## Consolidated Statements of Earnings

for the years ended December 31, 2006 and 2005  
(all numbers in thousands except share and per share data)

	<b>2006</b>	<b>2005</b>
<b>SALES</b>	\$ 57,885	\$ 79,210
<b>COST OF SALES AND OTHER EXPENSES</b>	54,146	74,220
<b>EXIT COSTS (Note 10)</b>	919	2,303
<b>EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING:</b>	2,820	2,687
Amortization	2,119	2,854
Interest (income) expense, net	(119)	408
Foreign exchange gain	(332)	(278)
Other income (Note 11)	(884)	(12,153)
	784	(9,169)
<b>EARNINGS BEFORE INCOME TAXES</b>	2,036	11,856
<b>INCOME TAXES</b>	509	814
<b>NET EARNINGS FOR THE YEAR</b>	<b>\$ 1,527</b>	<b>\$ 11,042</b>
Earnings per share -		
Basic and diluted	\$ 0.07	\$ 0.54
Weighted average common shares outstanding		
Basic	22,049,233	20,610,877
Diluted	22,049,233	20,610,877

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

# Consolidated Statements of Cash Flows

for the years ended December 31, 2006 and 2005  
(all numbers in thousands)

	2006	2005
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATIONS</b>		
Net earnings for the year	\$ 1,527	\$ 11,042
Items not involving current cash flows <i>(Note 13)</i>	1,160	1,640
Net change in non-cash working capital <i>(Note 13)</i>	(1,867)	1,836
	820	14,518
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment and other assets	(20,840)	(6,286)
Proceeds on disposal of property, plant and equipment	1,952	2,522
	(18,888)	(3,764)
<b>FINANCING ACTIVITIES</b>		
Bank indebtedness	4,919	-
Issue of common shares	-	2,180
Proceeds from long-term liabilities	6,000	-
Repayment of long-term liabilities	(3,095)	(3,442)
	7,824	(1,262)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	(13)	(230)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(10,257)	9,262
<b>Cash and cash equivalents, beginning of year</b>	10,257	995
<b>Cash and cash equivalents, end of year</b>	\$ -	\$ 10,257

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

# Notes to Consolidated Financial Statements

as at December 31, 2006 and 2005  
(all numbers in thousands except share and per share amounts)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principles of Consolidation

The consolidated financial statements include the accounts of Automodular Corporation and its subsidiaries (the "Company") and have been prepared following Canadian generally accepted accounting principles. Inter-company balances and transactions are eliminated upon consolidation.

### 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.

### Cash and cash equivalents

Cash and cash equivalents consist of highly liquid instruments, such as deposits with major commercial banks, the maturities of which are three months or less from the date of purchase.

### Inventory

Inventory consists of raw materials which are valued at the lower of cost or replacement cost on a first-in, first-out basis.

### Property, plant and equipment

Property, plant and equipment are stated at cost and are amortized over the estimated useful lives of the assets using diminishing balance or straight line methods at effective annual rates ranging as follows:

Buildings and leasehold improvements	10% to 30%
Manufacturing equipment	20% to 40%
Automotive equipment	25% to 40%
Other equipment and furniture	20% to 30%

Open capital projects are assets not currently available for use and will be reclassified to their appropriate classification upon project completion.

### Long-lived assets

Property, plant and equipment and other assets with limited life are reviewed for impairment whenever events or changes in circumstances suggest that the carrying amount of an asset may not be recoverable. An impairment is recognized when the carrying amount of an asset is greater than its fair value, including any proceeds on disposal. The impairment amount is measured as the amount by which the carrying amount of the asset exceeds its fair value.

### Revenue recognition

Revenues are recognized upon shipment to, or receipt by, our customers (depending on contractual terms) and acceptance, by our customers, of the products delivered in accordance with contractual specifications and quality standards detailed in the underlying contracts or agreements with them. Revenues are measured in accordance with contractual prices and recognized when collection is reasonably assured.

### Deferred contract costs

The Company capitalizes costs incurred in establishing new production lines and facilities which require substantial time to reach commercial production capability. Amortization of these costs will be recorded over the life of the original contract, commencing on the date commercial production is achieved, to a maximum of five years. After commencement of commercial production, ongoing contract costs will be expensed in the period incurred.

### 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.

The Company reviews the carrying value of its goodwill and intangible assets on an annual basis to determine whether there has been any impairment in fair value. Any permanent impairment would then be recorded as a separate charge against earnings and a reduction of the carrying value of goodwill and intangible assets.

In accordance with Handbook Section 3062 "Goodwill and Other Intangible Assets", the Company completed its annual goodwill and intangible impairment analysis during the fourth quarter of 2006. Based on the results obtained, the Company determined no write down was required.

### Pension plans

The Company sponsors a defined benefit pension plan for a member of its executive. The cost of the defined benefit plan is actuarially determined and includes management's best estimate of expected plan investment performance, salary escalation and expected retirement age. Adjustments arising from plan amendments or from actuarially determined gains or losses are amortized on a straight-line basis over the remaining service life of the executive.

The Company also sponsors defined contribution pension plans. Company contributions to this plan are expensed as incurred.

# Notes to Consolidated Financial Statements

as at December 31, 2006 and 2005  
(all numbers in thousands except share and per share amounts)

## Hedging relationships

In accordance with CICA Handbook Section 3865, derivative instruments that qualify as hedges are not recorded in the Company's financial statements. Subsequent changes in the derivatives' fair values are disclosed in the notes to the financial statements as unrealized gains or losses. Derivative instruments that do not qualify as hedges, or are not designated as hedges by management, are recorded in the balance sheet at their fair value and are remeasured on a quarterly basis. The unrealized gains or losses are recorded through earnings as non-hedge derivative gains or losses.

The Company's derivative instruments consist of an interest rate swap. Management has designated this swap as a hedge. According, unrealized gains and losses are not recorded through earnings. Additional information on the swap is recorded in Note 16 (b).

## 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. Exchange gains and losses are included in income.

The Company considers its Michigan and Ohio operations to meet the definition of self-sustaining foreign operations. Assets and liabilities of these operations are translated at the rate of exchange in effect at the balance sheet date. Sales and expenses are translated using the average exchange rate for the period. Exchange gains and losses arising from the translation are deferred and included in the cumulative translation adjustment account in shareholders' equity and will be included in income when there is a reduction in the net investment in the foreign operation.

## 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. The effect of any changes in tax rates on the future income tax balance is recognized in income in the period of change. To the extent that management does not consider it to be more likely than not that a future income tax asset will be realized, a valuation allowance is provided.

## Earnings per share

Basic earnings per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method, which assumes that all option or warrant are exercised and that the proceeds would be used to purchase common shares at the average market price during the year.

## Stock-based compensation

The Company accounts for stock options granted using the fair value method and recognizes a compensation expense on options granted to employees and directors after January 1, 2002. Under this method, compensation expense for stock options granted is measured at the fair value at the grant date using the Black-Scholes option pricing model and is recognized over the vesting period of the options granted.

## 2. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying value of cash and cash equivalents, receivables, 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 liabilities approximate carrying values since actual rates approximate market rates.

Financial instruments potentially exposing the Company to a concentration of credit risk principally consist of cash and cash equivalents and accounts receivable. 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. See Note 3.

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company does not actively hedge its exposure to interest rate risk, other than as disclosed in Note 16 (b).

## 3. ECONOMIC DEPENDENCE

The Company has long-term contracts with General Motors Corporation, General Motors of Canada Limited and Ford Motor Company of Canada, Limited (the original equipment manufacturers or "OEMs") and their various suppliers. All of the Company's sales are dependent on the OEMs, either directly or through their various suppliers. The Company's sales are entirely dependent on the production volumes of the OEMs for which it provides services.

As at December 31, 2006, 83% (2005 - 68%) of trade receivables were due from General Motors Corporation, General Motors of Canada Limited and Ford Motor Company of Canada, Limited.

# Notes to Consolidated Financial Statements

as at December 31, 2006 and 2005  
(all numbers in thousands except share and per share amounts)

## 4. PROPERTY, PLANT AND EQUIPMENT

	2006			2005		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land, buildings and leasehold improvements	\$ 3,900	\$ 3,013	\$ 887	\$ 3,778	\$ 2,640	\$ 1,138
Manufacturing equipment	7,340	5,988	1,352	8,404	6,451	1,953
Automotive equipment	693	449	244	2,485	1,907	578
Other equipment and furniture	3,383	2,703	680	3,587	2,697	890
Open capital projects	14,107	-	14,107	3,281	-	3,281
	<u>\$ 29,423</u>	<u>\$ 12,153</u>	<u>\$ 17,270</u>	<u>\$ 21,535</u>	<u>\$ 13,695</u>	<u>\$ 7,840</u>

The Company's Oakville facility realized commercial production levels during the first quarter of 2007 at which time approximately \$13,800 of the balance included in open capital projects at December 31, 2006 was reclassified to the appropriate asset groupings.

## 5. OTHER ASSETS

	2006			2005		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Deferred contract costs	\$ 11,664	\$ 726	\$ 10,938	\$ 2,144	\$ 225	\$ 1,919
Pension fund asset (Note 14)	989	-	989	1,128	-	1,128
	<u>\$ 12,653</u>	<u>\$ 726</u>	<u>\$ 11,927</u>	<u>\$ 3,272</u>	<u>\$ 225</u>	<u>\$ 3,047</u>

## 6. ADVANCED TOOLING PAYMENT

In the prior year, a customer advanced funds to the Company to purchase capital assets on their behalf, relating to a new business award. The liability was drawn down during the current year as the Company purchased the required assets.

## 7. CREDIT FACILITIES

The Company has available to it a revolving credit facility with a limit of \$8,000 (reducing to \$7,500 at June 30, 2007) which expires December 31, 2007. At December 31, 2006, the Company had drawn \$3,470 (2005 - \$293), which excludes outstanding cheques. Both the revolving credit facility and the term credit facilities described in Note 8 are secured by the Company's present and future assets, properties and undertakings. Interest is calculated at the bank's prime rate of interest plus 2.5%. The effective interest rate at December 31, 2006 was 7.5% (2005 - 7.5%).

## 8. LONG-TERM LIABILITIES

	2006	2005
US dollar term credit facility bearing interest at a floating rate, based on LIBOR. The effective interest rate for 2006 was approximately 8.7% (2005 - 5.2%). The balance is denominated in US dollars (US \$2,151; 2005 US \$4,151) and matures December 31, 2007. Payments of US \$500 are due quarterly.	\$ 2,507	\$ 4,828
Canadian dollar term credit facility bearing interest at lenders' floating base rate. The effective interest rate for 2006 was approximately 7.8%. Payments of \$83 are due monthly, maturing August 15, 2012.	5,667	-
Capital leases with interest rates ranging from 6.5% to 12.3%, repayable in monthly installments of \$22, with various maturities through 2010, secured by equipment with an original capital cost of \$742.	405	124
	8,579	4,952
Deduct: Current portion	3,767	2,450
	<u>\$ 4,812</u>	<u>\$ 2,502</u>

Under the terms of the financing arrangements with its bankers, as described in Notes 7 and 8, the Company is required to meet certain financial and other covenants. The Company is in compliance with its financial covenants at December 31, 2006.

Interest expense on long-term liabilities for the year is \$529 (2005 - \$306).

The principal repayments of long-term liabilities are as follows:

2007	\$ 3,767
2008	1,113
2009	1,029
2010	1,002
2011	1,000
Thereafter	668
	<u>\$ 8,579</u>

# Notes to Consolidated Financial Statements

as at December 31, 2006 and 2005  
(all numbers in thousands except share and per share amounts)

## 9. CAPITAL STOCK

### (a) Authorized

Unlimited number of common shares.

### (b) Issued - Common Shares

	Number of Shares	Amount
Balance - December 31, 2004	12,049,233	\$ 19,010
Rights offering (Note 9(c))	3,000,000	2,180
Share exchange exercised (Note 9(d))	7,000,000	21,376
Balance - December 31, 2005 and 2006	<u>22,049,233</u>	<u>\$ 42,566</u>

### Class X shares issued by a subsidiary (Note 9(d))

Balance - December 31, 2004	1,504,365	\$ 21,376
Share exchange exercised (Note 9(d))	<u>(1,504,365)</u>	<u>(21,376)</u>
Balance - December 31, 2005 and 2006	<u>-</u>	<u>\$ -</u>

### (c) Rights offering

During 2005, the Company completed a rights offering and issued 3,000,000 common shares for gross proceeds of \$2,250. Under the terms of the offering, common shareholders received one right for each common share held. Class X shareholders received one right for each common share that Class X shares were convertible into. For every six rights, an eligible shareholder was entitled to purchase one common share at the subscription price of \$0.75 per common share. Expenses incurred in relation to the offering totalled \$70, resulting in net proceeds of \$2,180.

### (d) Class X shares

During 2001, a subsidiary of the Company issued 1,504,365 Class X shares, which were exchangeable into 7,000,000 common shares of the Company. The shares participated in the earnings and dividends of the Company as though they were common shares of the Company and accordingly were included in the calculation of weighted average common shares outstanding. During December 2005, the shares were exchanged for the full 7,000,000 common shares.

### (e) 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.

No options were granted during 2005 or 2006. During the year, 242,000 options expired and 88,500 options were cancelled.

As at December 31, 2006, 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	Options Exercisable
October 24, 2002	122,000	\$4.00	October 24, 2007	97,600
February 18, 2003	27,500	\$4.15	February 18, 2008	16,500
July 24, 2003	100,000	\$4.26	July 24, 2008	60,000
	<u>249,500</u>			

## 10. EXIT COSTS

### 2005

During the year ended December 31, 2004, the Company was informed that its major customer would not be renewing the contract related to its Lansing operations, set to expire December 31, 2005. In conjunction with the expiring contract, the cancellation of the related contracts held with Tier 1 customers occurred during 2005. A charge for exit costs totalling US \$1,902 (CDN \$2,303) was recorded in 2005. These exit costs include US \$1,350 (CDN \$1,635) to settle remaining lease obligations on a redundant facility. The remaining US \$552 (CDN \$668) relates to severance and other closeout costs. There are no amounts remaining in accounts payable and accrued liabilities relating to these costs.

### 2006

As disclosed in the subsequent events note in the 2005 Annual Report, Automodular was informed by its major customer that it was unsuccessful in its bid for an expansion of its Pontiac operations and, in accordance with the terms of the bid, ceased to operate in Pontiac in mid-2006. Exit costs of US \$783 (CDN \$919) relating to severance and other closeout costs have been recorded as a current year charge. There are no amounts remaining in accounts payable and accrued liabilities relating to these costs.

# Notes to Consolidated Financial Statements

as at December 31, 2006 and 2005  
(all numbers in thousands except share and per share amounts)

## 11. OTHER INCOME

	<b>2006</b>	<b>2005</b>
Dividends and other	\$ -	\$ 129
Gain on disposal of property, plant and equipment	884	1,133
Gain on legal settlement (net of expenses)	-	10,891
	<u>\$ 884</u>	<u>\$ 12,153</u>

### Gain on legal settlement

During 2005, the Company settled outstanding litigation with West Street Capital (formerly Consolidated Enfield Corporation). The litigation was commenced in 1995 and concerned alleged oppression in the management of the business of Enfield. In the litigation, the Company was seeking damages from the defendants, including Hees International Bancorp Inc. (a predecessor of Brascan Corporation). Under the settlement, the Company received a payment from Brascan of \$11 million.

## 12. INCOME TAXES

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

	<b>2006</b>	<b>2005</b>
Property, plant and equipment and other assets	\$ 3,964	\$ 671
Reserves and other temporary differences	(3,877)	(662)
	<u>\$ 87</u>	<u>\$ 9</u>

(b) The major factors that cause variations from the Company's combined federal and provincial statutory Canadian income tax rates of 36.1% (2005 - 36.1%) were the following:

	<b>2006</b>	<b>2005</b>
Earnings before income taxes	\$ 2,036	\$ 11,856
Expected income tax expense at statutory rates	\$ 735	\$ 4,282
Increase (decrease) resulting from:		
Non-deductible/non-taxable items	88	12
Manufacturing and processing deduction	(108)	(19)
Non-taxable portion of capital gains	(85)	(2,059)
Capital losses previously unrecognized	-	(1,227)
Non-capital losses previously unrecognized	-	(125)
Changes in tax rates	(260)	-
Other	139	(50)
	<u>\$ 509</u>	<u>\$ 814</u>

(c) Provision

The details of the income tax provision are as follows:

	<b>2006</b>	<b>2005</b>
Current provision	\$ 466	\$ (744)
Future provision	43	1,558
	<u>\$ 509</u>	<u>\$ 814</u>

## 13. CASH FLOW INFORMATION

(a) Items not involving current cash flows

	<b>2006</b>	<b>2005</b>
Amortization	\$ 2,119	\$ 2,854
Gain on disposal of property, plant and equipment	(884)	(1,133)
Future income taxes	78	27
Stock-based compensation	6	24
Foreign exchange	(332)	(278)
Pension expense	173	146
	<u>\$ 1,160</u>	<u>\$ 1,640</u>

# Notes to Consolidated Financial Statements

as at December 31, 2006 and 2005  
(all numbers in thousands except share and per share amounts)

## (b) Net change in non-cash working capital

	<b>2006</b>	<b>2005</b>
Receivables	\$ 1,329	\$ (5,856)
Inventory	20	66
Prepaid expenses	679	101
Accounts payable and accrued liabilities	(1,371)	3,759
Advanced tooling payment	(2,026)	2,026
Income taxes	(498)	1,740
	<u>\$ (1,867)</u>	<u>\$ 1,836</u>

## (c) Supplemental information

	<b>2006</b>	<b>2005</b>
Interest paid	\$ 535	\$ 394
Income taxes paid (recovered)	\$ 1,546	\$ (1,051)

## 14. 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. The total expense for the defined contribution pension plans were \$751 (2005 - \$710). The Company also has a defined benefit pension plan for a senior executive of the Company. Information about the defined benefit plan is as follows:

	<b>2006</b>	<b>2005</b>
<b>Total defined benefit pension expense is comprised as follows:</b>		
Defined benefit plan		
Service costs (benefits earned during the year)	\$ 99	\$ 83
Interest costs on accrued benefit obligation	81	64
Expected return on plan assets	(79)	(73)
Amortization of transitional obligations	72	72
<b>Total defined benefit pension expense</b>	<u>\$ 173</u>	<u>\$ 146</u>
<b>Pension fund asset is comprised as follows:</b>		
Market value of plan assets at beginning of year	\$ 2,217	\$ 2,089
Employer contributions	30	-
Actual return on plan assets	148	128
<b>Market value of plan assets at end of year</b>	<u>\$ 2,395</u>	<u>\$ 2,217</u>
<b>Accrued benefit obligations is comprised as follows:</b>		
Obligation at beginning of year	\$ 1,601	\$ 1,216
Service costs (benefits earned during the year)	99	83
Interest costs on accrued benefit obligation	81	64
Actuarial (gain) loss on accrued benefit obligation	(4)	238
<b>Accrued benefit obligation at the end of the year</b>	<u>\$ 1,777</u>	<u>\$ 1,601</u>
<b>Funded status at end of year:</b>	\$ 618	\$ 616
Items not recognized in earnings:		
Unrealized transitional obligation	286	358
Unrecognized actuarial gains losses	85	154
<b>Pension fund asset</b>	<u>\$ 989</u>	<u>\$ 1,128</u>

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation are as follows:

	<b>2006</b>	<b>2005</b>
Discount rate	4.75%	4.75%
Expected long-term rate of return on plan assets	3.50%	3.50%
Rate of compensation increase	4.00%	4.00%
Retirement age	65 years	65 years
Expected remaining service life	4 years	5 years

Based on the result of an actuarial valuation completed as of December 31, 2005, funding contributions are expected to be \$139 for the year 2007. Payments will commence upon retirement of the key executive. The next actuarial valuation of the plan for funding purposes will be required no later than December 31, 2007 or in the event of a plan amendment.

During 2004, the Company committed to providing a second senior executive with certain post-retirement benefits. The total estimated cost of these benefits was expensed over the remaining service life of the executive. The executive retired during the second quarter of 2005 and is receiving monthly payments of \$5. This obligation is unfunded.

# Notes to Consolidated Financial Statements

as at December 31, 2006 and 2005  
(all numbers in thousands except share and per share amounts)

## Plan assets

As referred to above, the Company established a retirement compensation arrangement for a senior executive of the Company in order to pre-fund the benefits under the plan. Under the terms of the retirement compensation arrangement, 50% of all contributions to the plan are required to be deposited with the Canada Revenue Agency. At December 31, 2006 41% (2005 - 43%) of the plan assets at fair value were deposited in the tax account and 59% (2005 - 57%) were invested. The balance invested consists of the following allocations:

	Target	2006 Actual	2005 Actual
Fixed income	40%	37%	39%
Canadian equity	50%	47%	45%
US equity	5%	8%	8%
International equity	5%	8%	8%

The expected long-term rate of return on plan assets is arrived at based on a review of historical rates of similar investments.

## 15. RELATED PARTY TRANSACTIONS

During the year, the Company paid rent to two companies controlled by a former member of the Board of Directors totalling \$1,155 (US\$1,018) (2005 - \$1,937 (US\$1,599)). These transactions were conducted in the normal course of business and were accounted for at the exchange amount.

During 2006, the Corporation completed a secured \$6,000 financing with Roynat Inc., a wholly-owned subsidiary of The Bank of Nova Scotia which also owns 100% of Scotia Merchant Capital Corporation ("SMCC"). SMCC exercises control or direction over 39.9% of the issued and outstanding common shares of the Corporation. The financing was used for the purchase of capital assets required for the Corporation's new program for Ford Motor Company of Canada Limited in Oakville, Ontario. Repayment terms and interest rates are described in Note 8. Roynat Inc. earned customary banking fees in relation to this transaction.

## 16. CONTINGENCIES AND COMMITMENTS

### (a) Operating leases

All of the Company's facilities are subject to operating leases. The Company also has operating lease commitments for equipment. Future lease commitments are shown below. Approximately 90% of the operating lease commitments relate to facility rentals. Commitments are denominated in both Canadian and US dollars. US dollar denominated commitments disclosed below have been translated into the Canadian dollar equivalent.

	US Denominated	CDN Denominated	Total
2007	\$ 1,375	\$ 3,857	\$ 5,232
2008	680	3,734	4,414
2009	680	3,609	4,289
2010	-	3,693	3,693
2011	-	3,520	3,520
Thereafter	-	12,148	12,148
	<u>\$ 2,735</u>	<u>\$ 30,561</u>	<u>\$ 33,296</u>

### (b) Interest Rate Swap Agreement

The Company is committed to an interest rate swap agreement, which expires December, 2007, on its US dollar denominated term debt of US \$2,151 (see Note 8). The agreement subjects the Company to a fixed rate of 8.7% and the counterparty to a floating three-month US dollar LIBOR rate plus 3.5%. As at December 31, 2006, the unrecognized gain on this agreement, which was calculated using year-end market rates, was \$1. The Company has no plans to unwind this position prior to maturity.

### (c) Letter of Credit

The Company has issued letter of credit in the amount of \$294 (US \$252). As at December 31, 2006, no amount has been drawn upon the letter of credit and no amount has been accrued in the consolidated balance sheets relating to this letter of credit.

### (d) General

In the ordinary course of business activities, the Company is a party to 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.

## 17. SEGMENTED INFORMATION

### Geographic Information

The Company operates in one segment. The following table summarizes the geographic information. Sales for automotive sub-assembly and sequencing services are shown by country of origin.

	2006		2007	
	Sales	PP&E and Goodwill	Sales	PP&E and Goodwill
Canada	\$ 39,456	\$ 26,314	\$ 35,182	\$ 15,800
United States	18,429	370	44,028	1,454
	<u>\$ 57,885</u>	<u>\$ 26,684</u>	<u>\$ 79,210</u>	<u>\$ 17,254</u>

## 18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

## Investor Information

### COMPARATIVE DATA

	Dec. 31 2006	Dec. 31 2005	Dec. 31 2004	Dec. 31 2003	Dec. 31 2002
<b>Operations (\$000s)</b>					
Sales	57,885	79,210	93,537	107,909	55,919
Net earnings (loss)	1,527	11,042	(10,445)	3,745	4,033
Cash flow from operations	820	14,518	2,991	6,377	9,778
<b>Financial (\$000s)</b>					
Total assets	57,400	51,328	36,039	53,804	42,806
Long-term debt	4,812	2,502	122	9,216	–
Shareholders' equity	35,812	34,864	22,145	34,590	36,994
Return on average shareholders' equity (%)	4.3	38.7	(36.8)	17.5	19.6
<b>Per share (\$)</b>					
Net earnings (loss)	0.07	0.54	(0.55)	0.20	0.21
Weighted average number of shares outstanding (000s)	22,049	20,611	19,058	18,939	18,829

### QUARTERLY DATA

	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2*	Q1*
Sales (\$000s)	12,656	10,206	17,133	17,890	19,660	20,680	19,564	19,306
Amortization	553	517	543	506	929	772	623	530
Net earnings (loss)	160	199	591	577	9,302	644	1,436	(340)

\*restated

### COMMON SHARE PRICES

#### Calendar year

	The Toronto Stock Exchange		
	High \$	Low \$	Volume (000s)
<b>2006</b>			
Fourth quarter	2.13	1.15	492
Third quarter	1.40	0.90	525
Second quarter	1.06	0.80	1,302
First quarter	1.10	0.80	2,071
<b>2005</b>			
Fourth quarter	1.35	0.63	896
Third quarter	1.30	0.80	302
Second quarter	1.15	0.70	329
First quarter	1.70	1.02	134



## Corporate Information

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President & Chief Executive Officer

Andrew Brenton  
Managing Partner  
Scotia Merchant  
Capital Corporation

Garth Davis  
Partner  
Scotia Merchant  
Capital Corporation

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James Rodgers  
President  
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Rae E. Wallin  
President  
N-Viro Systems Canada Inc.

### AUDITORS

PricewaterhouseCoopers LLP  
Toronto

### PRINCIPAL BANKERS

The Bank of Nova Scotia

### SOLICITORS

Sheldon • Huxtable, Toronto

### TRANSFER AGENT AND REGISTRAR

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### OFFICERS

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President & Chief Executive Officer

Christopher Dell  
Vice-President Business Development

Travis Doyle  
Vice-President Program Launches

Diane Erlingher  
Corporate Secretary

James Gazo  
Vice-President Canadian Operations

Christopher S. Nutt  
Vice-President Finance  
& Chief Financial Officer

Rae E. Wallin  
Chairman of the Board

## Annual Meeting

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**THE ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS WILL BE HELD IN THE RIDOUT ROOM  
OF THE TORONTO BOARD OF TRADE DOWNTOWN CENTRE  
1 FIRST CANADIAN PLACE TORONTO ONTARIO  
ON THURSDAY MAY 10, 2007 AT 11:00 A.M.**

**ALL SHAREHOLDERS ARE ENCOURAGED TO ATTEND.**

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**AUTOMODULAR CORPORATION**

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